David Clark

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What you need to do is to compare fund sizes today with the exit sizes in 10 to 15 years because that's when you're Those companies are ultimately going to become liquid.

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David has also been an LP for 32 years. So there is nothing. This man has not seen cycle wise, booms bus.

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Harry: I am so excited for this. I've heard many of your conversations before. You have some strong opinions, which I'm excited to dive into.

So thank you for joining me.

David: Yeah, no, it's a pleasure, Harry. I've been listening to your podcast for a long time and, and, you know, really impressed by what you've built here and the guests and so honored to be part of it.

Harry: Do you know? It's been 10 years. Wow. Like, I'm getting fricking old, but I When was

David: started when you were 12. Did

Harry: I was actually 14, but I'm glad that it was an early start. You've been an LP for 32 years and 32 years with Van Cap. Yeah.

how did you first become an LP and when was that? I want to do this as a career.

David: Yeah funnily enough I didn't grow up thinking actually my life's ambition is to become a an LP in VC funds. I grew up in a small village [00:04:00] in Northumberland. Pretty =sure=== that nobody in that village had ever heard of venture capital and I hadn't heard of venture capital.

But I, I sort of finished university. I actually was keen to kind of go on and, and, and do a PhD, but kind of life intervened at that time and, and I had to end up getting some real work. And I was just looking for pretty much anything. my girlfriend at the time, my wife now was, was living in Oxford.

I was still living with my parents up in Northumberland. When I came down to see her we were looking for, I was looking for a job. I saw an advert in the Oxford times, numerate graduates required for global finance firm. And I thought, well, it doesn't sound very interesting, but if I don't apply for it, she's going to see it and she'll kill me.

So that was, that was 1992. And I was fortunate enough that my first boss was willing to take a punt on a, you know, a spotty fresh graduate with no experience. You'd never heard of V. C. before.

Harry: I absolutely love that. I mean, often fear is a great driver. Um, When did you know that you actually love doing [00:05:00] it?

David: like for me, I'm curious about things.

I like to sort of really dig into the detail and it was probably after sort of four or five years when we were starting to see the first kind of. com companies begin to emerge. I remember we got a stock distribution of Netscape. and it was my job to figure out what we were going to do with stock distributions.

So I remember phoning up. The CFO of Netscape at the time is a six month public company and having a conversation with them and thinking, shit, this is really interesting. I never thought that I'd be doing something like this, but actually having that kind of not quite a front row seat as an LP, but, but maybe a second row seats into, into new technology, new developments that are changing society.

I struggle to think of a more interesting career in a more interesting way to have spent the last 30

Harry: I mean, it is an incredibly interesting seat to have. It's also a seat that's changed over time, I'm sure. Ryan Akina at MIT said that it's become harder than ever. I'm intrigued. Do you think it [00:06:00] has become harder than ever?

David: I can see why you would have that perspective in the sense that there are just so many funds and managers out there today you are constantly bombarded by people who are trying to raise money and, and, want to pitch you. And it's simply impossible if you were trying to.

To meet with everyone to be able to work through those and to select.

Harry: successfully.

David: And so I think from an LP, one of the things we've learned is that being an LP is all about understanding what you're good at and understanding what you're not good at and making sure that you are focused. So for us, actually, the last five or six years have been very simple because our view is that it's, it's been impossible to actually distinguish good managers from bad managers.

Average managers, because everyone looked good. Everyone had companies that were getting written up. Everyone could talk about some interesting deals that they'd done. Everything looked great, but I think one of the advantages of having been in this industry for so long is that we've seen cycles happen before and, we've made all the mistakes in the book. I remember in the [00:07:00] early nineties, we mass in the late nineties. Rather, we massively expanded our our roster of managers. We did a lot of first time funds, and this was all in 98 99 when things were looking unbelievable. We were backing managers in a fund to where their first fund was showing 100 percent I.

R. R. And a five X T. V. P. I. A couple of years later, those funds were looking very different. And so I think it's really sort of understanding what it is that you want to see in a manager. That's what you have to do in order to be able to do this job successfully and be ruthless about, sticking to that particular focus.

Harry: question to you though then is if you think about the last five or six years it's impossible to select, everyone looks good, then you end up doing nothing.

And you have to stay at the forefront of great managers, you have to ensure that you don't miss the next great franchise. How do you Approach that knowing that you don't want to enter a world where you can't decide but also you can't miss

David: Yeah, I think you can miss one of the things that we've learned is that you don't have to do every great manager out there. You just have to make sure all the managers you do a [00:08:00] great.

So it's not about trying to see everything and pick every ring, everything that has the potential to rise into that top quartile or top test style. It's about understanding what your lane is, being comfortable in your lane and recognizing. that lane is still relevant and is still able to produce the performance that that you expect from the asset class.

And I think particularly over the last five years even if we saw a really good manager, we thought it was the wrong time to intercept them. And actually, There would be a much better opportunity when there was far less noise and far more signal to fine tune that decision. And we saw this back in 2010, 2011, 2012, where we were able to add several top tier managers.

After the financial crisis, because a lot of their traditional LPs were struggling with the denominator effect that being very little liquidity. So they were struggling to make new commitments. And I think a lot of those managers there recognized it was important to have a reasonably diversified LP base.

So not just Ivy League endowments, but But also some [00:09:00] family offices, some funder funds, and as you know as a funder fund, we don't suffer from the denominator effect because we raise capital and then we invest it. So as long as we've managed to have our clothes before the market turns, we've got capital that we can invest into a much better environment.

Harry: Far less noise and far more signal. Sounds wonderful. Sadly when you have far more signal, there's far more noise. traditionally I agree with you in terms of supply of capital in cycles, but there is a I

David: it comes down to understanding venture works and going back to the first principles of the industry. And that's one of the things that we've always tried to do to really go deep on understanding what is it that makes a great fund? What is it that really drives out performance in the venture industry?

and the thing that we, Constantly come back to you is that venture is a power low industry, and it's 1 percent of the exits that ultimately [00:10:00] generate the bulk of the returns created by the entire industry globally. So we're looking at around 30 companies a year that generate more than half of the total exit value for the VC industry.

And when we look at who are the investors in those companies, it tends to be the same names time and time and time again. And so for us, we'd much rather spend our time trying to access those very best names than trying to. Find that needle in a haystack that one in 500 new emerging managers that might potentially do that.

And if it means we miss out on one of those managers, then we're, we're fine with that because we've got enough in our roster that continue to find those key companies and drive that out

Harry: You're right, absolutely, that there are a continuing set of names that are in the best. Those continuing set of names are also most often in the multi billions of dollars in terms of AUM and fund size. And that will dramatically impede their level of having a 5x net fund. So it is just fucking hard to do a 5x net on the size capital they have.

David: it's, it's hard to do a five x net [00:11:00] full stop. So we had a look at the, the PitchBook data around DPI. So there was about. 1200 funds that were raised from 2000 to 2014 15. I forget the exact date. And we looked at what the DPI statistics were for those funds. More than 50 percent hadn't returned one X capital. And so these are funds that are more than that are 10 years old now, at least 10 years old now, hadn't returned one X capital.

There was just 6. 6 percent that had generated 3x net DPI and just 2. 6 percent that had generated 5x DPI. when you're talking about the incidence of 5x funds, let's put that into context, that it's 1 in 50 funds that's capable of generating a 5x fund, according to the data on PitchBook.

Harry: PitchBook. Which begs a couple of different questions.

Begs the question, is venture really worth the illiquidity premium? You are a fund of funds, but the S& P will get you 2. years. Pretty much with guarantees and with liquidity. Why bother doing venture? Because it's a

David: bother [00:12:00] doing venture? But, if the

Harry: the fund size is so large, you know, we're seeing I do name names, but I'm not saying anything about their performance, but your Andreessens, your GCs, your Lightspeeds, your any of the big firm brand names, they're multi billions of dollars. Doing, doing a 3x is insanely hard, on a lot of funds, but on that it's so hard.

David: And I think I think for us, that's the one big thing that keeps us awake at night. It's it's have these funds become so big that they can't ultimately deliver that type of performance.

And today we haven't seen that.

Harry: When you say that type of performance, what is the type of performance you

David: 3X. On an aggregate portfolio level. and, you know, we've, we've disclosed a little bit of the sort of high level performance. So happy to, happy to do that. so we have a group of a dozen core managers.

and, you know, like 90 percent of all the capital we've invested over the last decade plus has gone to those managers. and when we look at the performance of, of their core managers, mature [00:13:00] funds. So let's take away the ones that were raised in the last couple of years. We are seeing to us north of three X around that kind of three and a half X on a on a blended basis on an aggregate basis.

So this isn't Pie in the sky numbers. This is what those funds have delivered. And the other thing to look at there is what percentage of them have actually lost money. So go back to that 50 percent funds from PitchBook haven't returned one XDPI.

what we found is Less than 3 percent of those funds showing a TVPI of less than 1x.

some of those funds are going back 30 years. So that's through the dot com boom and bust, it's through the financial crisis. So what we're able to do still is to capture, a significant chunk of that upside, while minimizing the risk of losing capital. I don't want to not answer your question on fund size, because I think this is, this is really important.

And again, one of the prevailing narratives is that you can't get a fund returner for a billion dollar fund. So we had a look at our data and we found 45, 000, Investments that have returned a billion [00:14:00] dollars to the single fund that invested and we're also fund returners And most of those have happened in the last seven or eight years the idea that you can't get a fund returner from a billion dollar fund is just untrue and actually the the majority of those weren't just a billion dollars.

There were multiples of that I think the most we have is a 15 billion dollar outcome for a single fund

So You have to sort of understand the size of the outcomes that we're now talking about for these funds just one last point, Harry.The other thing that I think you also have to bear in mind is that you're comparing today's fund sizes with today's exit sizes.

If I look back 15 years ago, I was having exactly the same conversations about funds. They're way too large. You're never going to get a 3x multiple. What you need to do is to compare fund sizes today with the exit sizes in 10 to 15 years because that's when you're Those companies are ultimately going to become liquid.

And if you look at how those exit sizes have increased over the last 15 years, are you saying to me that you [00:15:00] don't think technology outcomes are going to get bigger over the next 15 years?

Harry: So then let's play this game out then. I like that a lot, because most people are like, well, we need to compare fund sizes today to exit sizes today.

And actually, we've had this realization that we were wrong in COVID and that companies shouldn't be 40x revenues, they should be. And we're back to the normal now. And so, it's really interesting to say, hey, project yourself forward ten years to the exercise of ten years time. What do you think the exercise of ten years time is then?

David: so. In the famous words of Yogi Berra predictions are hard, especially those about the future. we would sort of take a step back and say, is technology becoming more or less important? Is it capturing a smaller or larger share of the economic pie? And are the market sizes for For the winners in technology getting smaller or bigger, we think all of those arrows are pointing upwards.

yes, we know the multiples that you will see on those individual companies, earnings or revenues, what going to fluctuate, but ultimately the markets that they're playing in and the share of the economic pie that technology is going to capture in our view is only going to [00:16:00] increase. And so that gives us confidence that whatever multiples are at the time of exits.

Harry: we're going to see exits get larger. We've never had

David: Khan either. No.

Harry: on either. The market size increases, the proportion of, spend to tech increase, but it concentrates intensely, which is not good for us.

Do you share my worry on that?

David: I think you're right. it's clear the incumbents today have managed to have multiple iterations of their products.

the question I would have, though, is how long is that likely to continue? remember back in the in the mid nineties, Reading the innovators dilemma Clayton Christensen, and it was a real eye opener at the time just around how it's very [00:17:00] difficult for those incumbents to really innovate and to disrupt their own business and cannibalize their own business models.

and it's interesting, know, look at what's happening with someone like Google today. Look at the reaction to, to their AI product that we've just seen over the last. couple of weeks and all those people that are now saying, you know, Google needs to really address where they're going as a business.

You know, look at what Elon's done with Twitter in terms of, you know, Turning that company on its head, I think there are a lot of challenges for the incumbents, and there's no guarantees that they're going to be able to continue to hold that dominant position, particularly as we enter different technology paradigms.

don't know if you if you've had a chance to read Chris Dixon's book yet,

Harry: No I haven't, but I've got him coming on the show in a week,

David: fantastic.

Harry: should do, but yes.

David: But I think, what's really interesting there is study philosophy at university. one of the things we looked at, there was a really small group called the structure of scientific revolutions by a guy called Thomas Kuhn.

And it's really interesting about the way [00:18:00] that, science works in paradigms. And by a paradigm, it basically means a particular way of thinking, and that paradigm exists for a certain amount of time, and then new evidence, new data emerges, and the paradigm changes. And when the paradigm changes, it's hugely disruptive.

And I see similar things happening in technology. We've seen it with, mainframe. We've seen it with client server. We've seen it with the first generation of the Internet. We've seen it with mobile. You know, we're seeing it now with AI. And the one thing I would put on top of that. is blockchain and crypto.

if we do see blockchain and crypto really emerge as a dominant technology paradigm in conjunction with AI, then I think that's going to have a very significant impact on the incumbents that are out there.

Harry: do you not think though, that actually that the thing that actually made. The prior incumbents usurpable or replaceable in whatever way we want to call it is actually the lack of linkage between them and the new platform.

And I think what concerns me most is when you look at, platform shifts that we see today with AI. Fundamentally, it also goes down to compute as well. Ability to spend on compute, scale of [00:19:00] buy, scale of purchase, scale of data, scale of data quality. There is a core linkage in the prior platform to this platform, which gives them unparalleled advantages that we didn't have when moving from on prem to cloud.

David: Yeah, But I also look at, if we were then saying, you know, what's the likelihood that we're going to see another kind of outcome in that, multi hundred billion dollar region, you know, you look at something like a bite dance in China, which has emerged over the last 10 years, you know, while a lot of these companies were there now, it's admittedly a different market and more restricted.

And those companies haven't been able to to operate to the same extent in China. You know, you look how open AI has really begun to, to, to win that category now, you know, still very early and who knows ultimately what's going to happen there. But I still feel optimistic that, it's the fundamental nature of technology is that incumbents ultimately have a half life and that half life has admittedly got longer.

But I do think we will still see companies come over time that will disrupt those [00:20:00] industries and it will be based on different technology paradigms.

Harry: So I'm interested, you said about kind of the amount of funds that were able to return, a billion dollars and even one that did 15 billion dollars. Liquidity in venture, is one of the most important things. I think it's Horsley Bridge data. where they talk about the compressed timelines for liquidity and how, unless you take advantage of them, venture is a really shit asset class.

But if you do take advantage of them, then it's brilliant. My question to you is how do you think about liquidity strategies in those very short timelines and the managers that do it well? And those that don't.

David: Yeah, no, and I think I would absolutely agree with that. It's the, it's the classic thing was that there's years where very little happened and then there's weeks where years happened sort of thing.

And so, you do see that in, in venture. there are short periods of time where you need to capture the value. And if you don't do that, then you're going to struggle.

Harry: For us,

David: investing in managers who really understand the dynamics of the industry, who've been through those cycles before, or have people within [00:21:00] their firm that have been through those cycles before and understand the importance of generating liquidity when, it's available.

you know, from an LP's perspective, the way that you're able to do that is to make sure that you are investing consistently across every vintage, you're not trying to time the market, because if I look at the stuff that we were seeing. in 2019, 2020, 21. These are the investments that we made 10 years earlier.

And 10 years earlier was 2010, This was financial crisis when people weren't deploying

Harry: checks.

I, I write this stupid schedule and I just don't listen to it at all. 'cause it's way more interesting. You know, liquidity is predicated on often IPOs or m and a. You mentioned Lena Khan m and a is pretty much fucked.

I'm worried about that. Yeah. Do you share my concern?

David: Yeah uh, in the short term, I do, yeah. I think it's interesting how, you know, the UK regulator can block, you know, two US companies from merging, which is, is an interesting one with, with Figma and Adobe. I think it's going to be a challenge, for the, the [00:22:00] big tech companies, to acquire significant new product, and that goes back to the conversation we were having a second ago about their ability to iterate and continue to stay in that in that position.

But I do think it makes it harder for the M and a market operate at scale. And so I think for companies, it's becoming increasingly important that they view themselves as standalone businesses for the founders to take the view that this is not just a kind let's get it to a couple of million dollars in revenue, and then we can sell it to someone.

It's about how do we build something that's actually durable and sustainable and and standalone. and those are the sort of companies That ultimately are able to go public. I think the impact that will have is that the concentration of returns in venture is going to be even smaller there's going to be fewer companies that ultimately account for that, performance.

And so it's going to be even more important that your backing managers that can do Identify them, win them, work them, and as you said earlier, know when to get out.

Harry: I, [00:23:00] I totally agree with you and get you there. You said about the UK blocking two American companies from merging. You know, I had Larry Summers on the show and he very much, you know, I can't remember, China's a jail, Japan's an old people's home and Europe's a museum. How do you feel about Europe? Do you share the world's concern around Europe falling drastically behind and ever increasing China and U. S.?

David: I'm not a macro economist, so I, I, you know, let's, I, I, I know my area of

Harry: is any venture investor, but we still opine

David: Yeah. But I, I'll , if I'm looking at it from a, a, a venture perspective, I think it's important as an LP to know what you know and know what you don't know. I'll tell you what I don't know. I don't know what the next great sector is going to be.

I don't know where the next great company is going to come from. I don't know whether Europe is going to outperform China or India or the US. What I have a much better sense of are who are the people who Do know that or have a good shot at knowing that and this comes back to as an LP My job is to select managers and I want to select those [00:24:00] managers who can consistently find those top 1 percent companies wherever they are you know geographically or wherever they are in terms of industry sector that's really important. And when I look at our portfolio 10 percent of our portfolio is invested in Europe

Harry: How much is in the US? 70. China?

David: 10.

Harry: Is China going to nothing?

David: Not sure. It's come down by half over the last 10 years. Yeah. really

Harry: interesting thing that, you know, obviously I speak to a lot of LPs there's been dramatic shifts in allocation towards obviously China and Israel over the last, you know, few years towards the U S and Europe again.

Like there's been an influx of additional capital that's come from

that. Yeah,

David: yeah. and we've seen that. I was, I was just chatting to a guy I know at a UK fund earlier today and, and they've just recently closed and done a fantastic job and had actually raised a lot of capital from US investors.

And he was thinking a lot of that is possibly those investors taking their China allocation and now moving it into Europe.

Harry: I think we would fall in that bucket. have one European investor and everyone else is US.

David: yeah.

Harry: Yeah.

David: don't care how much is in Europe. [00:25:00] I don't care how much is in the US. What I care about is Are we getting exposure to the those top 1 percent companies and that will define the best managers.

And so when I look back at VC exits over the last 7 years, the managers that we've backed have been in 85 percent of the top 20 or 30 exits there. So we're consistently getting exposure and not just logo exposure, like proper exposure. When

Harry: did you do your last fund?

Our last one was probably

2018.

David: 2018

I mean this in the nicest way. It's your job not just to not piss off your existing managers. But I'm like, Alfie's a friend of mine.

Harry: I've never, I would never bother pitching Alfie because it's like, you know, 2008 is six years ago. I'm so sorry to be so rude. do your LPs not ask, like, why are we paying fees? That new investment was six years ago.

David: Yeah,

Harry: It's a game of access.

David: ultimately what do our investors care about? Our investors ultimately want to try and get the best risk adjusted [00:26:00] returns they can from the venture industry.

And we think we have a strategy that delivers that. In a way, trying to sort of understand how that strategy works under the hood. It's a bit like, how do our, how do our managers find their best company? I don't really care how they do it. There's lots of different ways to be a successful VC investor.

I'm less worried about that. I'm more worried about their output than their process. you know, from our perspective, you know, we want to continue to deliver that performance. And so we are paranoid about every time I see I was just doing something today. There was a new white paper about why emerging managers and small funds outperform.

And I'm all over that data because I want to understand what are we missing? What's wrong with our strategy? you know, why should we do? A whole load of net new managers. What advantage will it give us?

Harry: I'm loving this. But you said there about output over process. I just think that's so wrong because like the investment decision making process is the product of venture capital and actually when you think about sustaining great returns and when you think about what makes a firm great it's the process that lead, it's the [00:27:00] inputs that lead to the outputs.

I could have a random investment in Uber from a friend who I've worked with before, crap process, crap portfolio, my output will be great, that firm will be

David: How do you know if the process works?

Harry: You do a review?

David: Of the process or of the output?

Harry: You can do a review of both.

David: but how can you know the process works unless you judge it by the output?

how do you know that, you know, somebody's investment process is better than somebody else's investment process?

Harry: I think you can understand the quality of one's thinking and how they think about creating environments of safety where you actually champion and challenge together, where you hear all voices when there isn't a dominant voice, when there isn't a bias, a bully, when there isn't uneven confidences in a partnership, when there isn't unequal distribution on mean, that

David: You wouldn't invest in Brian Singerman. Where there's a single, where Founders Fund have a single, you know, single GPs can go and do deals. Andreessen Horowitz,

Harry: Oh, I, I'd definitely do that. But they champion, they challenge each other intensely. Brian will get pushback from Peter [00:28:00] like nothing else, and he'll get pushback from Napoleon and he'll get pushback from all of his other partners.

He will be rigorously challenged. Kler. Yes, I would. Why? Because I think Keith would push back. Immensely if he didn't like a deal that vinod liked and I think vinod would listen

David: one of the things that I've seen is that there's no single right way to do venture.

There's no single right way to make decisions. There's no single right way to structure a partnership. There's no single right background for a successful VC and actually trying to predict what the key determinants of, of success are. We've tried to do it and we haven't been able to

Harry: do

it.

David: I would love to see the long term data from other LPs.

That says that they have been able to do it. one of the things that that we feel very strongly is that Actually, all the talk about edge and how you pick emerging managers.

How do you know if you're successful or not with your strategy? it's very easy to talk about, you know, I found this fund or [00:29:00] I've done that, or I look for this. How do you go back in 10 to 15 years time and say, did that actually work or did it not? And what we've been able to do with our strategy is to look back because we've been doing it for so long.

We've been able to look back at the. Output and go that's actually been

Harry: Do you not worry that that is a lagging indicator? It doesn't represent a new strategy. I hear a lot of endowment funds that say, Oh, we've got the Yale David Swenson model. And I'm like, he did that in the 80s when there were much fewer managers to select and venture had much better returns. That is not a comparable strategy today.

Do you not worry that that is lagging data that you are now acting on in today's

David: today's environment? Yeah, and I think, totally accept that, that one of the challenges of Venture is that the feedback loop is so long.

to be honest, most LPs probably aren't going to be in the same job. when that feedback comes so that they're more worried about deploying than they are about what happens 15 years down the line when, you know, when the performance data is actually in. but then I [00:30:00] would kind of flip that around.

And say, let's go back to the first principles. So I totally accept that. Let's go back to the first principles. Let's go back to the underlying performance data. And let's see what strategies, can be successful. we think venture is such a power law

industry.

Harry: there are new, there are new strategies which haven't been done before to the extent that they have, like Sam Altman, who is obviously a fantastic CEO, and also invests heavily on the side There haven't been cases like him before, and so we don't have data sets to predict forward on or to judge against.

How do we think about entirely new models, which may be better?

David: Yep. And I think as an investor, we don't feel we need to be out there trying to test these new theories.

What we need to try and do is to find when something is working to jump on it as quickly as we can, and then trying to get access in there where we have. And, and more conviction that it's not just a good [00:31:00] story, a good narrative, but actually it's going to result in strong performance.

we are looking at adding new managers in the market. Today, because we think that signal to noise ratio looks a lot better because we're now starting to see a lot of those companies that raise money in the height of the Zurb era, begin to come back down ground get a sense of what they're really worth.

And so I do think over the next couple of years, you will start to see managers differentiate themselves. But I think for us, the earliest we would intercept a manager would probably be fund three, and that's where we've had the most success historically. So if I look at our 12 managers, probably half of them, we ended up doing it from three.

Harry: Why is that the critical juncture?

David: I think it's because you get a better sense in fund one as to whether or not they've been able to find one of those top 1 percent companies. And once you have found those, one of those top 1 percent companies experience and our data suggests that you're more likely to be able to replicate that.

again, going back to some of the academic data that's [00:32:00] out there, it does suggest that that first success is actually random. Yeah. But once you've had that first success, there's a high likely or higher likelihood that you can then leverage it and start that virtuous circle and begin to build a franchise.

Harry: you care about the ownership on that first success?

David: It has to be material. It's not just the ownership. It's also the role of the investor in. contributing towards that success. So if you wrote a 50, 000 seed check

Harry: and

David: turned up 15 years later and found you had a company that, you know, went public at a 10 billion valuation, then that's less interesting for us.

If you were leading around, if you were on the board, if you were working with the entrepreneur very closely, if you were adding value

Harry: Do you think VC's

David: I think some VCs add value. I think some VCs don't destroy value. I think there's a wide range

Harry: care if your VCs add value?

We

David: want our VCs to understand when they need to get involved and when they need to get out of the way, because there will be certain points in a [00:33:00] company's life where they do need help.

no. Success happens in a straight line. There were, you know, you look at most of the companies out there that have, been successful at some stage, they had a near death experience and I think the role of a founder It can be at times incredibly lonely. there are times when a VC needs to be there for that founder.

And needs to give them a hard, have a hard conversation with them and needs to deliver a bit of tough love, but also needs to be supportive. in a way to be a psychological support for that founder.

Harry: So

David: I think the best VCs are able to do that and can pick and choose their times.

there are clearly VCs out there who just need to back off a whole

Harry: I agree with you. I'm just intrigued. So on this juncture of like, hey, we invest, we tend to often find that our entry point is the third fund you acknowledge you can't really judge a process or it's very difficult to judge a process because of the lack of tighter outcomes What else is part of the selection process then? Just help me understand how you get excited by a manager. Okay.

David: I wanna say we've never invested in a manager that has come into us [00:34:00] directly. reply to all of them it's not something we want to spend our time looking at.

we have a pretty simple screen, you know, we want to look at what we think are those top 1 percent companies. We spend a lot of time looking at. Who were the early stage investors in them? And then it's a case of us trying to reach out and build relationships with those managers our deal flow is all outbound

Harry: Deal floor's all outbound? Yeah. Okay, how much is referrals from other managers that you're in?

David: If they're not on our list none

Harry: So then, like, just help me understand, what will lead you to outbound a manager? Is it like, oh, I really like their portfolio? Oh, that's an incredible background? Oh, I've seen their returns in PitchBook?

David: it's looking at, at those top 1 percent companies. we have a list of all the, the top 1 percent companies that we think that, you know, that are out there, the ones that have exited, the ones that are just below. and we're looking at who are the investors in those.

Who were the early stage investors? And we start to see names that we don't recognize. That's when we'll get interested and we'll do a little bit of work to see, you know, is this, you know, where did they [00:35:00] intercept these companies? maybe that's when we'll do some soft referencing amongst our GPS and say, what do you think of such and such?

if they're not in that screen, Then we're not going to spend our time there and this goes back to the conversation we had right at the start about is it Harder to be an LP today Yes, and no depending on how you're looking at the industry and how you're screening the potential candidates for investment

Harry: Okay, but we find one and we are like, yes, that's great. we really want to invest. We want to do the 2018 net new investment. If they're smashing it out of the park and in in the top one point, well one percent of companies, they don't have any allocation of their funds. Everyone is taking up the allocation.

How do you, and respectfully you're a funder of funds, so you're not a foundation, you're not a healthcare institution, how on earth do you win?

David: Persistence. understanding the entry point as well. Even great firms go through challenging periods of time. You know, one of the reasons why we see great firms fail is because they don't handle [00:36:00] succession well. And some of them will handle succession badly, but get there eventually.

So there may be an opportunity to intercept during the period where people are thinking, is this still manager that makes sense? You know, we talked about intercepting a number of our existing managers post financial crisis. You know, I think there's an opportunity today, you know, we know the lack of liquidity is having an impact on a number of LPs.

Because they need to have distributions coming back in order to make new commitments.

Harry: if you were a good lp, the last years weren't bad for distributions. Plus the denominator effect is better now, given my public markets. Are they, is is it really the problem that we thought it was?

David: think the denominator effect, has dissipated. I look at the distributions that we're getting and we had a good 2023, but that was on the back of things that went public in 2021. And one of the metrics we track is what's the value of the public stock that's held by our managers.

And that number has been coming down and there've been no net new ads to that list for the last 18 months or so.

Harry: And they don't distribute to you, [00:37:00] they hold for you?

David: They will distribute over time. So it probably takes 18 months, 24 months for a position to be fully realized from those managers. So, you know, we're getting to the stage now where those companies that went public in the second half of 21, they certainly distributed the bulk of, the shares that they had.

There is some still left. So, you know, we are seeing liquidity still coming back, it will take time to replenish that inventory. So even if we start to see IPOs in the second half of this year, it's going to be six months before those shares become freely tradable. And again, it will probably be another 12 to 18 months before those positions ultimately get fully distributed.

Harry: Hard question. Those positions are fully distributed. Do you hold, or do you sell?

David: We tend to sell because we don't think it's our job to hold public stock for our investors. They have their equity managers who do that and would do a better job than, than we would. Now, we don't necessarily go back to the VCs and you, and say to them, you should distribute as soon as the stock comes freely tradable.

You know, we want [00:38:00] them to, to use their judgment as to when to distribute stock, particularly if they're still closely involved with that company. Because we've seen a number of occasions where you know, the very best companies will continue to compound a public company. actually holding for a period of time after that is actually beneficial for, for performance.

Harry: I was speaking to a dear friend who's an LP and they said, listen, the managers who I will chastise are those who had the chance to distribute in the last few years and did not. Then I will get angry. Do you share that perspective?

David: It depends on Why they didn't distribute. I don't think you can take it on a a company by company basis.

I think you have to look at the overall volume of their work. let's say they had two, Ten companies that went public and they decided to hold one of them and they distributed the rest And they decided to hold that one because there were very specific reasons why they felt there was significant upside there Then we have no problem with that

But it should be the exception rather than the norm And I think it's interesting that criticism that Sakaya had for the Sakaya [00:39:00] fund It's absolutely the right idea.

It's just happened that they implemented it at a time in the market where you saw a significant correction once it was put in place.

Harry: don't disagree with you, but for those that. Maybe aren't aware like can you just explain your thesis why you think it is the right idea because many question that at all

David: when we talk about venture, there's a power law, but that is even true when you look at public companies that come from the venture industry.

So there are a handful of public companies that have continued to compound at high levels for multiple years after going public. it's not a systematically different company post IPO than pre IPO, yes, there's reporting differences and they've got to manage, you know, to court the expectations to some extent, but I think the very best companies can continue on that journey and it seems odd that

Harry: if you're

David: in one of those top 1 percent companies, ride it all the way.

Don't try and sell it early because you need to get points on the board. And again, this comes back to, what do our managers do really well [00:40:00] and, and what differentiates the very best managers from, from the rest of the pack, they recognize when they do have one of those. Top 1 percent companies and they have the confidence and they've got the history to know that if they do hold onto it and things go wrong, it's not going to be fatal for them, but they trust their judgment that actually, by doing that, they can

Harry: think you can really tell and I use NVIDIA as a good example here But NVIDIA was public for a very long time before the last few years the acceleration and enterprise value of that company is unbelievable and exceptional but you know bluntly I remember recommending it to my godfather in 2012 because I saw the rise in usage of mobile gaming and compute behind that

David: that.

I had

Harry: I had no fucking idea about AI in 2012 and then being at the forefront of that and I don't think many of the venture investors would have sold when they went public, whenever that was.

And so do you think you can even tell, honestly?

David: it depends on where you are in that company's life cycle. So at the time NVIDIA went public, it was a very different business. And I don't think [00:41:00] you could have predicted the AI wave. I look at what happened with Square, for example. So Square went public. It was a couple of billion dollar company.

I know. Two of the venture investors in there held on to that for several years post IPO because they knew the cash app was coming. They knew there was another leg there and they felt that the market wasn't fully valuing the option value of that second product line. And so where you have that sort of situation I think it's absolutely right for the venture investors to continue holding.

Harry: I agree with you and I get you. Can I ask you, you said about kind of succession, and I am really intrigued on that, because you said, you know, you like to have that juncture where maybe there's a faltering, but different firms make it through, different firms don't make it through.

What have been some of your biggest lessons from that? 32 years

David: You don't have to keep rubbing it in, Harry.

Harry: so impressed but What are your biggest lessons in those that make it through tough succession? And those that don't because there's many that don't that we kind of forget about.

when we look at the firms that have done it, well, I think they recognize it's important and they don't wait too long to address it.

David: there's one of the managers that [00:42:00] we back that have a, that has a policy that says, once you get to a certain age, you're out unless you're invited. by the rest of the partners to stay within the partnership. I think what that does, it really sets the precedent that, that this is a partnership, it's a firm and the firm is more important than any individual.

and I think that's really important and, and where we've seen firms not handle it well, it's where the senior partners that maybe the founding partners have just. been there for too long. They've kept too much of the economics. They haven't cleared a path for the people below them to come and really step up.

things change so quickly in venture that you've got to have that continued fresh blood coming through. Otherwise you get stale really quickly.

Harry: you think you are close enough to know when things change in the firms that you are in?

the firms you're in and respect that, but I'm sure I could tell you some horror stories right now of firms, things that are happening in your firms. Because my friends are in them and it's like founders know founders. Yeah. Yeah. Do you know what I mean? Yeah. Yeah. Do you think you're close enough to know?

David: It's probably a fund later than the issues would [00:43:00] start to emerge. But at the same time, you probably hear general scuttlebutt about what's going on in there. And, and, you know, how much of that actually plays out.

you can almost hear too much and not understand or find it a challenge to really appreciate, what's material for the firm. and everyone likes to moan about where they work. that's never changed.

I think for us, What we tend to look for is is to make sure that firms have that process where, you know, we're seeing a continual flow of new people coming in, and they're being valued for the work that they're doing and the senior partners stepping aside.

Harry: How do you know the work that they're doing is good?

David: it's trying to sort of understand who are the value drivers within a portfolio, you know, who are those top potential one percent companies and then understanding who actually source those deals. Who did the work? Are they the ones that are being elevated within the partnership?

And is there enough room at the top end to let them have the freedom to come in and continue to do those deals and ultimately start to influence the behavior of that partnership [00:44:00] and the strategic direction.

Harry: Who do you think has done generational transition the best?

David: I think there's two interesting ways of doing it.

So if I look at the firms that are on

I look at someone like Excel who, you know, is probably on the third or fourth generation now of leaders within that firm.

I

think they'd probably admit that, they didn't get everything perfect, but I think they've handled most of those transitions like pretty well and it's, it's really hard.

I think Sequoia have a really interesting, Way of doing it as well, where, you know, people kind of step aside and, you know, Don Valentine stepped aside for Mike and Doug, you know, Doug stepped aside for Roloff. So I think they understand the importance of doing that. The other way is I, think Foundry Group have done a really good

Harry: job.

I love Foundry

David: Because they've understood that actually, We're not going to try and do that. There's a group of people here that want to work together. And when we're done, we're done. I really respect that, that they haven't tried to

Harry: pretend.

Do you know, Foundry Group, I cold emailed Brad Feld when I was 18, and he would get on a call with me, he would help me, he would mentor me.

I think it's astonishing this industry for the [00:45:00] amount that actually the best do give back, which is really special. Yeah.

Can you talk to me about your re up process?

like if you asked me today, I could tell you who we would re up with and, who were the ones where there's more of a decision.

David: I think 90 percent of the managers that we have, you know, we're very happy with. We know we're going to re up with them. And, and in a way, our, our diligence on them is a continuous process. It's not about, Oh, they're now raising a fund. Let's kind of meet them and talk to them for the first time.

We spend time with our managers as much as we can without getting in their way. But we also, you know, make sure that we're doing a lot of work behind the scenes to understand the quality of their portfolio. You know, do they continue to have those key companies?

Are they, you know, in, in their more recent funds? But having said that, for every investment we do, we still go through a full diligence process. you know, we'll take references. We'll write our full investment recommendation,

Harry: You've got to give Alfie something to do

David: but I think that's more, confirmatory diligence that like, have we missed something here? it's not a case of, Do we think there's something we're worried about here? [00:46:00] It's really a case of making sure that there's not something that's fallen through the cracks that we haven't missed.

And also, you know, to be perfectly honest, if something goes wrong in the future, we want to be able to point to our LPs and say, Look, we've actually done a thorough job here. We're not just sitting there and, you know, on the beach smoking cigars and And not doing any, you know, not doing the work, you know, we are properly looking after the money that that we've been entrusted with

Harry: I

totally get that. Do you always do three funds?

No, Do you always do two funds? No.

why would you not do the

David: second?

So there's been An

instance of a manager where we've only done one fund and there were very specific Reasons for that. it was mainly a China fund. And there were you know, some team

Harry: issues.

Is team the number one reason you won't do a fund, I think the best funds break down because of partnerships breaking down.

David: two reasons we would say no to an existing manager would be

Performance

And succession. So, so the succession in a way is, is, is team.

Harry: If a manager is surprised that you're not [00:47:00] coming back, is that your fault? Yes. Do you get ahead of

it?

Yes.

How far ahead of it?

David: one of the things we do with a lot of our managers is we send them our internal benchmarks. Hmm.

So we will compare, you know, all of their funds to all of the other man.

And,

this is great because, you know, Cambridge or PitchBook or Prequin compare, you know, they show the market, but our managers want to really understand how to, how do we compare with our peers? So one of the things we do is, you know, every quarter, every six months we'll send them.

the benchmarks that that obviously all anonymized, but we'll show where their fund ranks because it's a relatively small number of managers We group it by three years So if you're a 2015 fund we'd compare you to funds that we did in 14 15 and 16 So there's a decent sample size there

and by doing that, it shows them it's obvious if they're not performing so we do it by IRR, we do it by a TVPI and we do it by DPI.

so we've had some conversations with people that, where we've said, look, you know, you guys are really good on IRR and TVPI, but you're lagging on DPI. how are you thinking about that? and some of them will [00:48:00] go Look, we think we've got a couple of really good companies here. We're not selling them.

You know, we don't want to force liquidity. We want to ride them as long as we can. Then, then that's great. In others, it would be, ah, okay. That's interesting to know. We think there's probably some of our, you know, B companies that we can generate liquidity events for in the, in the near term to help address

Harry: that.

So it's always hard when you like say no to a manager that you invested in or not re upping and you send them data and say listen this is where you stack rank and like this is what led to our decision because you can always have an answer back to that. Well I'm holding some amazing positions that aren't you know DPI quite yet but they will be or well actually whatever this may beIs it not better to just say I'm so sorry Dave we won't be investing

because it will always inspire a conversation. I could argue a thousand ways on

David: on the data.

Harry: But actually look at them. I was liking, look at that shit

David: firm ahead of us.

Harry: of me. Like they, they're all fucking on the beach .

David: I think we want to.

Harry: be

David: honest

with our managers. there's also limits to how far that honesty is going to go because

We want to give them an explanation as to why. And it's up to [00:49:00] them if they want to accept that explanation or if they want to push back on it.

And we'll have a conversation, but ultimately it's unlikely to change our mind. I think most of them, you know, where we have had that conversation have accepted it

Harry: and moved on. What do you sense like how do you feel about compression of deployment timelines

David: So one of the lessons, you know, I, I said we've made all the mistakes in the book. One of the mistakes we made in the late nineties was deploying our funds too quickly in, I think we had one fund that was fully invested in 15 months and it was the worst fund we had. So it was in, you know, in 1999 Vintage fund.

So as you can imagine. Not, not the best outcomes there. And I think one of the lessons we learned there was that Time diversification in a fund is so important. we look to invest all of our funds across a three year period. And one of the things I'm really proud of was that when I look at the fund that was deploying 19, we did that in a quarter under three years.

So even though our managers were coming back. Some of them in 18 months, we still maintained that time diversity in our portfolio. that was really [00:50:00] important, and it's something we talk, you know, we push our managers on all the time is, is that we want to see three year investment cycles for them.

Harry: I mean this nicely. You push your managers all the time. Are your managers not just like, Come on, like, I got a queue of people out the door, dude.

Like, next. I don't mean that rudely

David: at all,

Harry: all, but like, do you know what I mean? It's

David: like

no, I

think they're more polite than that

Harry: But I think,

David: we recognize that

Harry: We will give our opinion to our managers where we think there's something there that that it makes sense for us to talk about. if they don't want to listen to it, then, then that's fine. Ultimately they're the ones that are playing the game on the field. And as an investor, we trust them to

David: do that.

If they decide that, that ultimately they're seeing such great opportunities that they want. To put their fund to work in, in 18 months then they've earned that right to do that. But they've also must recognize that, that they will be held accountable for what they do. you know, it's not to say that will walk away from a manager if they have one bad fund.

That's not the case. You know, we look at these [00:51:00] as long term relationships. if there is a bad fund as part of that, we want the managers to be honest about,

Harry:

David: really thought about

what are the reasons for that? What are the lessons that they've learned?

Now, they might just be saying that and will continue to do what they want. But ultimately, you know, it comes down to, if it's happening consistently, that's going to impact performance. And when it starts to impact performance consistently, that's one of the reasons why we'd walk

away.

Harry: How do you think about fees and carry and sensitivity around those? We've seen some of the best firms and some of the names, I'm sure that are consistently in the top 1 percent of companies even have three and 30.

David: I've never seen a three and thirty.

Harry: What have you seen? That's the highest

David: Two and a half

Harry: How do you feel about fee and carry increases to the two and a half, to the 25 to the kickers? How do you feel about that?

I.

David: for us, it's about net performance.

what does that performance look like after the fees and carry have been taken off and if it's consistently top quartile and it's consistently strong then we're relaxed about that.

I would prefer to see the carry be tiered. So I've got no [00:52:00] issues about paying for performance.

But I think it's important, you know, ideally I'd like to have that alignment of interest so that if you do have it, if you have a great manager that has a poor performing fund, then that's reflected in the economics that go back to them for that specific fund. As you said, there's a whole line of LPs queuing out the door wanting to get into these managers.

So that's, you know, realistically that's not going to happen. ultimately for us it comes back to what what's the net performance?

Harry: What other things would piss you off? If there's deployment timelines compressing you know, fees and carry being elevated, anything else where you're like, Oh, that's a bug there.

David: we've talked about fund sizes. that is something that we continue to, to look at and to monitor and it's important that we still feel comfortable that whatever the fund size they're investing out of. That there's a, an opportunity for them to return the fund from with a, with a single investment.

certainly for early stage funds. I think for, for later stage funds, you know, we probably want to see, half the fund come back from a, or the potential to return half the fund from a

Harry: single.

Can I ask, what's your distribution of dollars across the stack, across early?

A and B, C and then

David: [00:53:00] we've got one or two managers that would have seed funds, there's probably three or four seed funds that were invested in across our, our, our managers. The majority of them would be early stage and that would be a and early bees. And

Harry: then.

David: virtually all of them would have some kind fun to do later stage deals, whether that's a fully fledged growth fund or whether it's more of a kind of continuation fund, a sort of opportunity fund, a select fund, that sort of thing.

It, it, it varies. We want to be sort of roughly 50 between early and growth. it's a challenge to manage that. If we end up being sort of 45 55, I think we're comfortable with that. We don't want to be 30

Harry: How do you feel about the stapling? ' cause it's hard, you know, and the best managers, especially, you know, a, they have IR teams.

I'm intrigued to see how you feel about those. they, they also say, great, but you need to do India. You need to do growth, you need to do X. And it's like, oh Christ, I just wanted to do your early stage fund.

David: we go back to the data and we look at the performance. whichever way we cut it, it's, it's, it's [00:54:00] really interesting. So we looked at what's the performance of of the early stage us funds from our core managers from 2005 onwards.

What's the performance of the growth funds from our core managers from 2005 onwards, what's the performance of the non US funds from 2005 onwards from our core managers, it's all the

Harry: same.

David: It's all the same in aggregate. It's all the same. You know, it's a point 1. 2 T. V. P. I.

Harry: Difference.

David: It's all

Harry: the

same. DPI difference or not? No,

David: The growth funds come back quicker with, the distributions come back earlier in the

Harry: growth

David: funds. So because we think the growth is probably more economically sensitive. if you think about what goes into the driver of a great growth entry valuation is probably disproportionately more important than it is on the early stage.

And also the size of exit is as well. So you know, we've gone through a period

Harry: where.

David: Had some very strong performing growth funds. And if I showed you a list of, of, of the TVPI of all our core manager funds, you would not be able to predict which was a [00:55:00] growth fund and which was an early stage fund.

Our best performing core manager fund in the last 15 years is a

Harry: growth

fund.

David: it's really interesting there, but I think we feel comfortable that, the, again, the best managers, have that ability to pick the best companies and as companies are staying private for longer now, does feel that there's more of an opportunity to generate venture type returns from slightly later stage investments. Roger Ambrose said on the show, venture returns will get worse. Do you agree?

Harry: For existing funds or for new funds?

David: Why

Harry: take one by one for existing

David: for existing. So I think there's no question in my mind that there's still more pain to be had for existing funds. You know, I look at the carrying valuations that we see for a lot of companies

David: they vary quite wildly. Some of our managers have been pretty aggressive in writing things down.

on the times, one of the things we are interested in is when we, when we do get pitched from, from newer managers, one of the things we look at are where are they holding their marks? And generally we've seen the new managers [00:56:00] holding last round value marks and not writing anything down where it's the more established managers that are perhaps ahead of the curve in, in writing stuff down. So I do think we're only part of the way through that. One of the other things we, we track is loss ratios. So what percent of companies backed by our managers are below one X. Historically for an early stage fund, that's

Harry: been

David: 60 percent of companies don't return one X cost.

You know, we've seen that. Reduce significantly for more recent

Harry: ventures.

David: my sense is that it's going to go back to the average It's going to go back to that sort of 60 percent So I think there's a lot of pain still to be had so that's not just companies who are going to see their values reduce.

I think there's a lot that ultimately aren't going to be successful and go out of business we haven't really had the wave of that happen yet It feels like that's still to come. I don't know, I'd be interested in your perspective as a, you know, as a VC as well. How are you, how are you

seeing that?

Harry: you know, the thing that we see from the data that we have, which is a lot, is the chasm in values that different people have in their books.

I mean, just extraordinary chasms in value. I was looking at one today and one was [00:57:00] valued at 800 million and the other person had it at 10. 2 billion. I feel for LPs because I think it's really difficult to get a fair grasp of what is the true value of your underlying book.

And I think that's very hard. And I definitely agree with you, the managers who don't need to posture and present a brilliant façade don't need to. And so I think you get a lot more truth to that. intrigued, you know, when we think about that, you know, Doug Leoni said before we've seen the transition from a boutique high margin industry to a commoditized low margin industry and Do you agree with your 32 years of

David: 32 years

Harry: But really?

David: I think what you've seen is, is over the last 30 years, the venture industry has expanded significantly. There's almost multiple parts to that industry now. I would say it depends on which part you're talking about. If you're talking about people that are raising multiple billions of dollars to do the crossover deals, the late stage private rounds, then I think that is more of a capital allocation [00:58:00] exercise than it is a kind of craft.

So I think returns there will probably, come down because the weight of capital

Harry: will make

David: entry values become efficient. And, we've seen that in a lot of other areas as well. So, parts of the market, I think that is true, but I also think there are other parts of the market where that's less true because It isn't necessarily about, is capital a strategic advantage?

In, in certain parts of the, of the industry, I think. it's still a case that too much capital can be detrimental to a company. So I think there's parts of the industry where you will see that craft approach. And, and for me, it's still

Harry: around,

David: you know, the seed stage, the series A, you know, maybe the early B's before things are really driven by the underlying metrics of the business, and it's more about.

an understanding of market potential and taking a view on founders, the more quantitative the decision becomes, the more that excess returns will probably get competed

Harry: away.

Can I ask you a final one? When you [00:59:00] think about your biggest mistake, a fun that you regret doing, you review that decision, what did you not see? The Yeah,

David: I think one of the challenges with investing in venture is

Harry: that

David: there are so many unknown unknowns, and the degree of randomness that is involved as to whether something is successful or not is high. And the early you get the, the, the greater that degree.

So I think there are certainly things that, you know, we couldn't have been expected to predict at the time we were doing the deal. And one of the things we do with our investments is, sort of four or five years post investment. We'll do a decision review analysis of, of those to see what can we learn from that and how can we improve our decision.

one of the big things that we learned

Harry: was

David: we used to only take references on managers from VCs that they had invested alongside. So we wanted to know what were they like as a partner, what were they like on the board? What we didn't do was if somebody was operating in a, in a particular space and we knew one of our [01:00:00] managers was one of the top investors there and they hadn't done any deals with that manager.

We just, Didn't follow up on that, but now we'll actually say we'll phone that manager up and say, like, why haven't you done any deals with this group? is it just that you're in different parts of the market or are there specific reasons for not having done those deals? And I think sometimes we learn interesting things from that.

So I think that's probably the biggest thing that's come out of our decision review process is not just to reference people who we know work with each other, but reference people who are in that particular sector and who we would normally expect to have

worked

Harry: you not worry that that's just competitor shit talk?

Do you know what I mean? Which is like, you ask someone, oh, what's it like with X, and they're gonna be a competitor in a lot of cases. Well, that's shit, and the partnership's breaking down, and they have a broken decision making process, and the brand's there. But, do you not worry that you're actually letting imperfect information then impact your decision making

David: Yeah, I think the importance there is you have to triangulate. And so there's not just one specific [01:01:00] source of information that is primary.and you also have to understand, you have to have that relationship with your VCs that, you know, are they the sort of person that, craps on everyone?

Are they the sort of person that gives everyone a great reference You need to sort of have that history with them where you can put that into context, what they're saying. And I think that's, that's really important. And that just comes from time and building those relationships and having those conversations.

And it's getting harder. It's getting harder. You know, particularly where, you know, you, you mentioned firms that have, you know, big IR departments and it's harder to have that interaction with individual partners. You've got to work

Harry: at

it

more.

Yeah, I wanna do a quick fire with you 'cause I could talk to you all day

So I'm gonna say a short statement. You're giving me some immediate thoughts. Does that sound

okay?

David: Yeah, go for it. What have you changed your mind on most in the last 12 months? So if you had spoken to me maybe not quite the last 12 months, but, but certainly sort of two or three years ago I think we were incredibly skeptical about LPs doing direct co investments.

Because we looked at the data, you know, we know 60 percent of deals don't return [01:02:00] capital. And we just thought, why would LPs be doing this? What's the likelihood that they're going to be getting into those top 1 percent companies? my view has definitely evolved on that.

I'm not all the way there yet to say that, that actually it's a good thing. But I do think there are situations in which, there are different ways to optimize for those top 1 percent companies. One is to do it through best primary managers, one is to do it through secondaries, and I also think another way selectively is to do it through directs.

But direct and established companies, not with seed stage

Harry: managers.

Yeah.

would you most like to change about the world of

David: venture?

I think venture the highest level

is quite exclusive.

And so I'd like to try and democratize venture to some extent, and that works on multiple levels. So it's about giving everyday investors the opportunity to invest in a sequoia or an XL or an Andreessen or Kleiner Perkins or an index. and not just Ivy league endowments. Because

I think.

for the average person, it's, you know, it's tough and, and venture done well, can really [01:03:00] drive significant outperformance over a long period of time. So I think giving individuals access to, to that, I think would be great. But I also think you know, looking at, who comes into venture as well, I mentioned You know, no one in the village I grew up had ever heard of venture.

I was lucky. Someone was willing to gamble on me. The

Harry: mean, I don't think anyone has heard of Venture in Britain in 32 years ago. I mean, seriously,

David: but I also look, I think about, you know, who's growing up in that village today and what's their chances of being able to, create a career in venture. it's really hard. you need to be an exceptional person in order to do this.

Well, as

Harry: a GP

David: would like to see the sourcing of GPS broaden, I think it's a child. You, you, we had the conversation off

Harry: there's nicely, are you not like, centered to this? Like, you're the most exclusive of exclusive LP. you add no one, you don't, I mean, it's nice that you don't take a chance on anyone, in the nicest of ways, I know you do at the intersection of Fund 3, but to get to Fund 3, Jesus, you've got to pass through the most golden hallowed halls of endowment funds to get there.

I'm [01:04:00] so sorry

David: No, no, no, no.

Harry: but it's like, but then be the change.

David: what we can't afford to do, though, is gamble the money that our investors entrust us with.

You know, we have a very specific strategy that that we think is able to generate strong and consistent performance across across the cycle. of the things we do want to try and encourage is to get people into the venture ecosystem from a diversity of different backgrounds.

So one of the things we do is a firm is we signed up to a charity called Gain, which is girls are investors. So we take a

placement student for six weeks in the summer to give them exposure to that. We run a 12 month placement scheme for university students. And we've done that for six years and so far everyone that we've taken on board has, has been a female student.

You know, I look at some of the things that some of our managers are doing in terms of trying to encourage diverse founders and, things are happening there. But it's, tough and, I totally take

Harry: your

point.

which manager are you not in that you would love to be in?

David: Um, Did Alfie ask you to, to ask this one?

Harry: [01:05:00] Go ahead. I don't throw friends under buses.

David: So I mean, I guess the one, the one man, and it really hits close to home. I have a huge amount of respect for the folks at benchmark and what they've done. And it's a really painful one. So back in the day, we were investors with both Merrill Pickard. TVI, who were the precursor firms to Benchmark.

And I remember having a conversation with Bruce Dunleavy and he said, we're spinning out, we're forming this firm. Um, You know, we said great. We love you guys. We'd love to invest and he went fantastic. It's five million dollars so this was be mid 90s at the time we were Managing a portfolio for a uk pension

Harry: fund

David: And they had the they had the sign off on anything we did So we went back to them and said we've got this great investment five million dollars You benchmark, you know, fantastic track record, from these established firms.

We're really excited about it. They went great. But we can only

Harry: do four.

David: So we went back to Bruce and said, we're in, but is it okay if we only do four? And he went, no, [01:06:00] it's got to be

five.

We've never invested in

Harry: Oh, God, that is painful. Yeah. Should UK pension funds and universities be doing more?

David: I think if you look at the performance that you know, the

Harry: best

David: university endowments in the U. S. have had from venture, then definitely the challenge

Harry: is

David: will they

Harry: end

up

David: Doing the best managers or will they get pushed to do local managers?

And I think that's one of the challenges that we've seen, you know, particularly in the UK when the government gets involved They want to try and encourage the UK venture scene, so they'll incentivize or restrict the ability of local investors to choose managers by

Harry: performance. They'll

David: They'll choose them because they want to try and grow the UK venture scene.

for us, that's really dangerous. It

Harry: hasn't

worked.

10 years time. You'll be 42 years then. Where do you want to be then? Do you still want to be doing this?

David: I mean, the first thing is I just I just like to be around generally You're

Harry: not that old! I'm

not

David: [01:07:00] I'm not taking anything for granted.

Harry: You're like 54, no? Yeah, 54. Yeah, you look great! You'll

be 64, 64, you're fit, you're fine!

David: Yeah, you never know you never know but I think you know going back to what we were talking about around succession you know for for me, it's really important that we've got some really Good people in our team, and it's super important that they have a pathway to grow and become the next leaders of the firm.

And I don't want to get in their way at the same time, I love what I'm doing. And so if they feel it would be useful for me to hang around in some capacity, I'd love to hang around and support them. But I think it's really important that they're the ones in 10 years time that are

Harry: driving,

David: the company, driving the strategy, driving the future of NCAP.

And if I can be helpful to them, I'd love to be helpful

to

them.

Harry: Listen, I've loved this. The best ones for me are real discussions. It's not a script. It's a discussion. This has been fantastic and thank you for being such a great guest.

David: Thank you. And I've really enjoyed the fact that we don't necessarily agree on everything. And that's

Harry: that's, and that's

David: and that's what makes a market.

Harry: If everyone agreed on everything, life would be so dope.

[01:08:00]

Scarlett 2i2 USB-6: I mean, I remember when people used to complain about the show in terms of me being too amenable, where I wouldn't disagree enough with guests. I think not as suddenly changed over time. If you'd like to see more from that incredible discussion with David, then you can check it out on YouTube by searching for 20 VC.

That's two zero VC. But before we leave you today,

Scarlett 2i2 USB-1: I need to tell you about hive. 2024 is shaping up to be a big year for the markets, with a number of iconic unicorns room and to be going public, whether you're a fund manager or invest solo hive is the best way for you to access the coming wave of IPOs before they hit the market.

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And see why they're the fastest growing pre IPO marketplace in the world.

And if hive provides incredible levels of access, [01:09:00] secure frame, secure frame provides incredible levels of trust your customers through automation, secure frame, empowers businesses to build trust with customers by simplifying information security and compliance through AI and automation.

Thousands of fast growing businesses, including NASDAQ angel list doodle and Coda trust, secure frame. To expedite that compliance journey for global security and privacy standards such. Such as SOC two ISO 2,701 HIPAA, GDPR, and more backed by top tier investors and corporations such as Google Kleiner Parkins.

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Scarlett 2i2 USB-3: And finally a company is nothing without its people. And that's why you need remote.com. Remote is the best choice for companies expanding their global footprint, where they don't already have legal entities. So you can effortlessly hire, [01:10:00] manage and pay employees from around the world or from one easy to use self-serve platform.

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Go to remote.com now to get started and use the promo code 20 VC to get 20% off during your first year Remote opportunity is wherever you are.

Scarlett 2i2 USB-7: As always, I so appreciate all your support in the state union for an incredible episode. This coming Wednesday with the one and only Chris Dixon at Andreessen Horowitz.