Trae Stephens @ Founders Fund

Trae Stephens: [00:00:00] We don't have Monday partner meetings. everything is super difficult to get through the investment team, and this is on purpose. The more process you have, the easier that it is to game the process to get to some mediocre outcome.

The worst deals are the most competitive deals, they're the ones that, are super consensus.

it's very easy in retrospect to say, wow, we really let that get out of hand.

but we're doing the same stupid stuff all over again.

for large funds, the economics only really work.

If you have a 10 plus billion dollar winner in every fund,

Scarlett 2i2 USB-4: This is 20 VC with me, Harry Stebbings now stay. We have one of the most incredible, but I can modest an under the radar people in startups on the show. He's one of the best early stage investors in the business. As a partner at founders fund, where he's led deals in incredible businesses like Flexport and Oculus to name a few.

And if that wasn't enough, he's also the co-founder of one of the fastest growing companies in technology Amaryl most recently valued at $8.5 billion. Android is a defense technology [00:01:00] company focused on AutonoMe. Autonomous systems.

Scarlett 2i2 USB-5: But before we dive into the show, stay, we're all trying to grow our businesses here. So let's be real for a second. We all know that your website shouldn't be this static asset. It should be a dynamic part of your strategy that really drives conversions. That's marketing 1 0 1, but here's a number for you.

54% of leaders say web updates take too long. That's over half of you listening right now. And that's where web flow comes in. Their visual first platform allows you to build, launch and manage web experiences fast. That means you can set an ambitious marketing goals and your site can rise to the challenge.

Plus web flow allows your marketing team to scale. Without relying on engineering, freeing your dev team to focus on more fulfilling work. Learn why teams like Dropbox, IDEO and orange theory, trust web flow to achieve their most ambitious goals today@webflow.com.

Scarlett 2i2 USB-8: I'm speaking of incredible products that allows your team to do more.

We need to talk about secure [00:02:00] frame.

Scarlett 2i2 USB-1: 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.

The company is among the Forbes list of top a hundred startup employees for 2023 and business insider's list of the 34 most promising AI startups for 2023. Learn more today@secureframe.com. It really is a must.

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, manage and [00:03:00] pay employees from around the world or from one easy to use self-serve platform.

Plus you can streamline global employee management and cut HR costs with remote it's free HR. I S and Hey, even if you are not looking for full-time employees, Remote has you covered with contractor management, ensuring compliant contracts and on-time payments for global contractors? There's a reason companies like get lab and door dash trust, remote to handle their employees worldwide.

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.

You have now arrived at your destination.

Harry Stebbings: Trey, I am so excited for this. So you've helped me with countless schedules for the show. I've wanted to make this one happen for a long time. So thank you so much for joining me today, Trey.

Trae Stephens: It's a pleasure to be here.

Harry Stebbings: Now, I would love to start with a bit of a weird one, but I wanna start childhood and parents and teachers see a lot.

How would your parents and [00:04:00] teachers have described the young Trey.

Trae Stephens: Oh man. Uh, yeah, I, I mean, I grew up in the country, like I, lived in the woods in a log cabin that my dad literally built with his bare hands. and I was kind of always this misfit, I would say. I love where I came from. I love Ohio, it's a wonderful place to be from. you know, there was always this like tension that was like pulling me to escape.

and I have an older brother, he's 18 months older than me, and my mom used to say that she had one son that's 18 going on. 12, being my older brother and I was like, 16 going on 40. had this kind of old soul from the very beginning. and I was the British version of an American teenager.

was like a 60-year-old in a, in a 16-year-old skin. I just loved hanging out with adults. I loved sitting around and reading books. I loved, like, thinking about philosophy. I, I would not say that I was like a super cool teenager.

Harry Stebbings: I mean, that has to be my favorite like phrase to enter, which is the, the American teenager in a [00:05:00] British body. I, I, I do have to ask, I heard that your entry to Georgetown in particular is a rather unique story of persistence. So how did you get into Georgetown, Trey?

Trae Stephens: I had, great grades, great test scores. Like, for all intents and purposes it seemed like I was going to be able to kind of write my story for what I was going to do. But the problem was, is I went to a rural public school in the middle of the country we don't really talk about this very much as a country.

We're focused on other social demographic problems. but it turns out that like you just, it's basically impossible to get into good schools if your guidance counselor doesn't know all of the admissions officers at the Ivy League schools or whatever. and so I sent out a bunch of applications.

I think I applied to nine schools and I got a lot of skinny envelopes back. I remember on the day that I got the skinny envelope back from. Five of the nine schools that I applied to, I went over to my high school girlfriend's house and I was like, well, you know, at least the school that I got, I did get into is next to where you're going to go to school.

And she [00:06:00] was like, yeah, about that. And broke up with me the same day that I had gotten rejected all these schools. So I like went home and just laid on the couch with my face down and my mom, came over and she is like, what do you want to do? where do you actually really want to go? And I said, I want to go to the school Foreign service at Georgetown.

And she said, I. Well, then you're gonna go to the School of Foreign Service at Georgetown. And she put me on a flight and sent me to Washington DC and said, go convince the admissions office in person that they should let you in. And so I sat on the doorstep of the admissions office, demanding to see the dean, and eventually the dean came out and he's like, who is this crazy person that's loitering on my doorstep?

And I had a backpack full of recommendation letters, admittedly from people that I know now. It's like they're probably not even reading these recommendation letters. It's like my, high school cross country coach and things like that. Um, and, uh,

Harry Stebbings: I mean, it wasn't your ex girlfriend, was it?

Trae Stephens: No, she did not write a recommendation letter for sure.

but, they basically just said like, this is crazy that you flew out [00:07:00] here with no plan other than to like, demand to speak to me. and we're gonna put you on the top of the waiting list and as soon as we like, get the final decisions back from everyone about whether they're going to attend or not, you'll be the first person off the list.

And so, to my surprise, a couple weeks later, I got a call from Georgetown and they were like, all right, you're in. that was a crazy stunt that you pulled. the funniest part about this whole story though is that the, in my first week at Georgetown, I got, uh, invited to, the president's office, have a meeting, and I thought like, wow, the president of the university is crazy.

Like he meets with every incoming freshman. and so I go and meet with him and he is like, no, I don't meet with every incoming freshman. I just heard your story from the Dean of admissions. And he was like, I needed to meet you. Obviously you came from like a. middle class, lower middle class background.

what's the financial situation here given your story? And, uh, I said, I'm taking a ton of debt. he said, you know, I can't help you with financial aid, but I can give you a job in the president's office. And so I ended up working for the university president all four years that I was in college. It was kind of like a crazy, it went from a [00:08:00] bad situation, like getting rejected to a situation where I was really set up to, have a completely transformational life experience, uh, in very, very short order.

Harry Stebbings: You mentioned the transformational life experience there. Does it not also just scare you in the way that bluntly, if you hadn't got on the plane, hadn't sat in their office waiting, your life could have been very different.

Trae Stephens: Oh, it certainly would've been. I, I think like the, again, this is like something we don't really talk about as a society, but Lower middle class rural, primarily Caucasian communities are, have just been obliterated by globalization. you know, JD Vance talks about this in his book, hillbilly Elegy.

you see these stats from the elite universities about how many valedictorians they reject. It's like kind of a symbol of pride. It's it's just this community that they're rejecting 'cause they have no connections, they have no money, there's no legacy emissions. They get no demographic boost from accepting these people.

so, it's just like I was a stat. I was like one of these people that's like, look, we get [00:09:00] nothing from admitting this kid with good grades and test scores. Doesn't benefit us in any way. Um, and so I was just that stat to all the places that I applied to college. this is a lot of what has led to populism, uh, the rise of populism in America is all of these people saying like, man, we are just like being completely ignored.

know, you see these communities of blue collar industrial workers that have historically been democrats, um, that have shifted over to being populist Republicans, and it's because they're just ignored. and I, I feel like I kind of figured out a way through that, genuinely because of my mom's persistence.

yeah, I would've, I would've ended up going to, you know, a state school and probably working at Deloitte or something. you know, it's a, a pretty big shift.

Harry Stebbings: And for anyone who works at Deloitte, that's a wonderful career, which you should be very happy with. Uh,

Trae Stephens: I am not sure that it's, and I'm, I'm willing to, I'm willing to go out on a limb and say that spending your life working for a consultant firm is probably not the path to having them, the most enlightened experience.

Harry Stebbings: I If enlightened experience is what you're [00:10:00] going for, I agree with you. What would you do to change that? This is why I love the show. 'cause it's just too interesting, like that's a problem. in terms of that, um, neglected population that we don't talk about either because it's not a minority of popular terms.

What would you do to change that then as an entrepreneur, as a problem solver?

Trae Stephens: these things are cultural problems more than anything else. My partner here at Founder Fund, Peter Thiel, who I also worked for when I was at Palantir, he's been talking about this for decades, like probably longer than anyone else.

he started a program called The Teal Fellowship to convince kids to drop out of college. Based on this idea that the elite universities are distorting, our culture and our values. I think that, there's some distortion that's happened that requires correction that correction is, we've seen this on display actively over the last six months with some of these presidents being fired, for kind of feeding into this hysteria in the, in the cultural moment.

we need to get back to a point where we have some way. to generate meritocratic outcomes that are good for everyone, [00:11:00] not just for like, subsets of the population.

You mentioned Peter there. I do want to, before we move into the investing world, just discuss the entry. How did Peter convince you to leave Palantir where you were doing very well to then move into the investing side and join Founders Fund? What's that story?

I'm not sure it was an opportunity as much as it was an order. It's kind of unclear. So I was, um, I was heading up what Palantir called the leverage team, which is essentially the sales organization. and had been doing that for a while. in that role I interact with Peter pretty frequently.

'cause, you know, he would wanna know like, what does our pipeline looks like? Where are we running into problems? Where can we leverage leadership, to drive these opportunities to close? and so he and I became friends really bonding around philosophy and theology primarily. and in March of 2013, um, which I had been at Palantir for about six years at that time, Peter just called me out of the blue and said, Hey, we're raising this first billion dollar fund at Founders Fund.

I would love for you to. Come join us at at [00:12:00] ff you know, I kind of scratch my head. I'm like, Peter, I have no interest in finance. I don't know anything about venture capital. Also, I'm like, I literally work for you at Palantir. Like, what, what exactly is going on? And he's like, yeah, you know, like you should entertain it.

Like I want you to meet other people on the team. And so, I got together with a bunch of folks that are still at Founders Fund today, Lauren Gross, who's our COO, Brian Singerman, who you just had on your podcast a couple of weeks ago. they were like, okay, so why are we talking to, I'm like, I.

You know, Peter wanted me to talk to you and they're like, why are you interested in venture capital? I'm like, I'm not actually interested in venture capital. what like deals that we've done are you most excited about? I'm like, I don't know what deals you've done, so I wouldn't even know what to be excited about.

And not surprisingly, coming out of these very, very bad interviews, the process, dragged for nine months, and then eventually I just get an email from Peter where he is like, all right, here's your offer. there's always this kind of like, funny joke at Founders Fund that like a horrible, horrible interview experience with me.

And then [00:13:00] that obviously meant that I ended up working at Founder's Fund.

Harry Stebbings: Did you instantly like it? It's a weird job and it's very unstructured. Did you like it straight off or did it take time to assimilate?

Trae Stephens: It took, it took time. Brian Singerman gave me the best advice I got in my first month, when he said, the only thing that you should be doing for the next year is meeting with every single company. You can have no standards, just like take meetings. Um, and eventually you'll start perceiving what's good, what's not good, like where you can kind of do a founder check to make sure that, this is someone that the team would be able to get really excited about.

And you can only do that with volume. there's no way that you could say, I'm gonna be super discerning. I'm only going to take like, top tier meetings. It's like, just do as many as you can. So my first year, I think I did like just over 500 pitch meetings, which for anyone that has done vc, I think, you know, that that is an absurd amount of pitch meetings in a year.

and by the end of the year, I, I think I was like pretty [00:14:00] well tuned to. what it means to be a top tier founder, what it means to have like, great alignment with a, with a business. and, it does take about that long. It takes about 500 pitch meetings before you really know what you're doing.

Harry Stebbings: Do you agree that it takes $20 million to learn to be an. Investor. I remember, Jeff at Insight told me that, and I look back at some of my early deals and I'm like, oh God, I would not have done those again.

Trae Stephens: 20 million sounds low. I mean, if, if you only lose $20 million figuring out how to do this, then that's, that's pretty good.

Harry Stebbings: if you're received as ten two million dollars checks, it's still 10. Fuck up. Re.

Trae Stephens: Yeah, totally. Yeah. No, I, I do think it takes a lot of that, and there's all sorts of things that I think the human brain is super interesting. Like we have the ability to convince ourselves of all of these things that are just not true. Like, we look at something and we say, this category is way too competitive.

the founder isn't like, perfectly aligned. there's like this weird economic incentive structure, but this, ah, this is the exception to all of the heuristics I've [00:15:00] learned in my time. And we do this stuff all the time. you know, it's a constant battle to like, remind yourself of all the reasons why these things don't work.

part of that is just maturity and getting to the point where you feel accountable, truly accountable for not allowing yourself to be sucked into these cognitive biases.

Harry Stebbings: Do you know what is a trade type of deal? what is a straight down the fairway deal for you? For me, it's like a non-competitive industry. I never want to compete against fucking Sam Altman doing foundation models and dary of anthropic and at Microsoft. I want like legacy architecture.

I want like high pricing power. I want really, really large old industries. That's a straight down the fairway deal for Harry. Okay. Do you know what is a trade deal?

Trae Stephens: Yeah, I, I really want a big category defining opportunity in industries that haven't been touched by modern technology in decades. and I want a founder that understands how to play inside baseball in that sector. [00:16:00] two great examples, you know, the first big check that I wrote at Founders Fund was Flexport.

And no one was thinking about supply chain logistics in 2014, Ryan shows up and he's kind of this like kooky guy that lived in China and like made a bunch of money on, like pricing or arbitrage and bath fittings and Ford four wheelers, shipping them from China to the United States.

and he was kind of this crazy outlier that it was like he was either crazy or on drugs or going to be one of the greatest founders of all time. I think that like, as an industry was super interesting to me. And then the second example of this is Andel, where, basically gonna be super hard, it'll be really capital intensive, but if you can actually be a next generation, rebooted version of Lockheed Martin or North Grumman, that company could be worth hundreds of billions of dollars.

and so I, I think that's the sort of stuff that I'm looking for.

Harry Stebbings: I totally get that, but also it's not often a consensus deal. When you look at both of those deals, they're both [00:17:00] anomalous in a lot of ways. for traditional venture firm thinking. You guys push back on two really interesting notions in venture, a traditional notion of like weekly ICS and partnership decision making and the benefits of it.

Listen, I speak to LPs the whole time this, they love to hear, they love to hear that you guys don't do that. How do you make decisions and why do you encourage every investor to run their own book?

Trae Stephens: This is absolutely true of Founders Fund. We, we all run our own strategy. We don't have Monday partner meetings. everything is super difficult to get through the investment team, and this is on purpose. the rough thesis is that. The more process you have, the easier that it is to game the process to get to some mediocre outcome.

And I'll give you an example. If like the most junior person on your team meet meets with a company and they're like, yeah, this company's pretty good. Like, I like the founder, I kind of like the idea. I'm gonna have them talk to, you know, a principal or a partner. And then that [00:18:00] meeting happens and they're like, it's interesting.

I don't have like super high conviction, but like, we'll bring it up into the partner meeting on Monday. And then you know, the GP or whatever is like, yeah, let's do a meeting with him. By the time that it gets to that point, it's like, okay, maybe we don't have conviction to write a big lead check, but like, maybe we put something in because like, it, it made it all the way through the process.

So like, you know, this is probably worth a participation check. Our approach to this is like, it's gonna be really hard to get anything through because there's no structure set up to get it through. It's just like. Personal willpower to go and convince people, and get them to take the meetings out outside of this process cycle.

and in order to get anything through, you literally have to just be pounding the table it is on you to have the level of conviction that's required to get people on board.

Harry Stebbings: how do you feel about asymmetric information there? So in this circumstance, say me and your partners and you say, Harry Flexport, Ryan's fucking amazing. All of these reasons why we should do the deal. Yeah. Yeah. Trey, I get it, but I don't know shit about Flexport. I don't know shit about the [00:19:00] business.

There isn't an alignment of knowledge on a deal. And so you miss benefits of partnerships? No. How do you think about that?

Trae Stephens: Yeah, I mean, naturally we're gonna pull in the person that we feel like knows the most about the industry in the process to have those conversations. You know, I'm not gonna invest in like a rocket launch company without talking to Deion and Scott.

we're always going to pull in the other people that are necessary to get to the best decision possible. It's just not done in a process oriented way. we really just wanna back people in their conviction. So when I wanted to make the Flexport investment, I had to kind of go through the gauntlet and answer a bunch of questions from the team and pound the table.

but at the end of the day, they were like, we made a bet on Trey. Trey has high conviction in this. And if he wants to put his, you know, his reputation and his career on the line to go and write a big check into this company, I. We need to support him to do that. that's like kind of on you to figure out whether or not you have that level of conviction.

Harry Stebbings: How do you think about winning deals? Say you have a really competitive deal, say Flexport suddenly gets 10 term [00:20:00] sheets, and some of the best firms in the world alongside you are competing for it. Do you come together as a partnership to win it? Then? Do you still do the isolated partner strategy? How do you think about whether or not to come together to win?

Trae Stephens: honestly answer is yes, of course. We'll, like work together as a partnership to win deals. our platform is very strong and so I wouldn't say that we're often in situations where people are, not keen to take our term sheet over someone else's, which is a great advantage.

And it's a great advantage of having a longstanding brand and very opinionated partnership that is very publicly opinionated.

Harry Stebbings: tre, have you ever lost a deal?

Trae Stephens: Um, yeah, I mean there, there's at least one that I can think of that I lost on a massive price disparity, not on a, like, fund decision making,

Harry Stebbings: did that deal end up being a mistake for you to not pay up that price?

Trae Stephens: no, it didn't actually. I think like we were wise to hold the line on that, on the price. In that specific case, that might not always be the case. There might be examples where it would've been better to pay the [00:21:00] price, but I don't think that's generally true. And this is, going back to that earlier point I was making about heuristics, is that you can't constantly convince yourself that every exception is actually an exception.

Usually it's just wrong. Usually you should just follow your instincts around the heuristic.

Harry Stebbings: how do you think about your own relationship to price? I find that often we can lean on price as a crutch. How do you think about when you're willing to pay up versus when you're not? I.

Trae Stephens: There's a, there's something deeply troubling about prices getting out of control that have nothing to do with the price itself. So usually what an inflated price means is that the deal is being com, it's being competed, and so the founder believes that they have leverage. The worst deals are the most competitive deals, because they're the ones that, uh, are super consensus.

Everyone agrees on the thesis. Everyone agrees on the founding team. There's no edge on the investment. everything is going to be expensive at every round. So, your expected value is going to, decrease. and it usually [00:22:00] indicates that there's some mimetic contagion that's happening.

In the marketplace. And this, for example, is why Founders Fund why Peter put us in San Francisco when everyone else was on Sandhill because he wanted us to avoid getting caught up in this. Like, are they going and meeting all the way down the street with all the other people? It's because Mimetic contagion leads to bad investment decisions.

when a founder says, I'm going to let this run like auction style, they're actually saying like, secretly inside their head, subconsciously or consciously, I'm like an athlete model, all I care about is co competition and I'm just gonna let it run and I'm gonna take the best price at the lowest, uh, dilution that I can accomplish.

I don't care if that, if that impacts the long-term responsible growth of my business.

Harry Stebbings: Dude, I so love doing this show 'cause I learned from it still after nine years. But I have so many founders that say to us and to every investor, especially in Europe, hey, super appreciate the interest, even a term sheet. I do wanna run a fair process and I'm actually [00:23:00] gonna make a decision next Friday when we've run the process.

that's how we're doing it. How would you respond to that? And do you engage in situations where there's a process?

Trae Stephens: I, I actually think that's super responsible. Um, I think communicating expectations and aligning people, is really important. The thing that I actually like a lot less is the false sense of scarcity and urgency. And that was like what was happening in 2021 where the founder was saying like, you have 24 hours.

I have a, I have an exploding term sheet. I'm gonna pull the trigger on this. That is basically saying I am using the leverage that I have perceived or, or real, to push people to do things. With limited information. and those sorts of behaviors are like, they're manipulative, and they usually lead to bad outcomes.

And so I think someone saying, I'm gonna give this a week. This is when I'm like, hoping to move through the wickets. And if they really want founders fund involved, like they're going to be respectful to us kind of walking through those wickets alongside them.

Harry Stebbings: Can I ask you, we mentioned some of the crazy times, [00:24:00] last years before, what would you say are your biggest. Takeaways from the crazy times. And did you change your style in any way because of them?

Trae Stephens: You mean like the ERP phenomenon of 20 20, 20 21?

Harry Stebbings: yes. I think that the primary lesson for me is that I really don't have fun. In that environment. it was super stressful. And I think for some people it was like, the deal velocity was super energizing for me. It was awful and draining. I was on the verge of just leaving venture capital.

Trae Stephens: because this idea that, you know, a founder goes out and basically holds their capital source hostage, by creating this like su this hyper competitive, overpriced environment, was just gross. Like, it just didn't feel right. And I say that as a founder as well, like we ran a process at Andel during that time, and we didn't do that because we agreed this is really gross.

We're not just going to let the highest bidder. Come in and sweep us off our feet we have to think about the future of our business. And I think now in 2024, looking back on what happened, it's very easy in retrospect to [00:25:00] say, wow, we really let that get out of hand. And now that we have got, we have to do a recap, we have to do a down round, we have to do all this crazy structure, but we're doing the same stupid stuff all over again.

And I don't, it's like people don't realize, like, guys, you have to calm down. Think about the future of your business. Don't think about what makes you feel good when people are, you know, patting you on the back and giving you exploding term sheets and taking you out to steak dinners this is not good for your company.

It might be good for your ego, but it's not good for the company. And that's what we should be maximizing is the long-term value and sustainability of these businesses.

Harry Stebbings: This was my point with some of the crazy, crazy rounds that we're seeing now, especially in ai. Do you think we actually did learn our lesson?

Trae Stephens: I don't think we did. I think there are, there are some people in the industry, uh, that I have a tremendous amount of respect for that have looked at this and said, we're just not gonna play this game. Like it guys, it was literally like two years ago. This isn't like a 10 year information gap. It was like two years ago.

and then there are other people that are saying like, [00:26:00] Yolo, like, I have to win, I have to get in. I'm gonna plow it in. You know, there was this, this incredible scene in Silicon Valley that I've been sending some people this video the main character is, uh, sitting at the bar with another founder and the guy is like, you know, his company was taken away, taken away from him.

he's no longer the CEO. And uh, he says. You could have just like taken less at a lower price and he was like, no, no, no. Like I was offered this price and this amount. And he was like, yeah, but you didn't have to take it. You could have taken less at a lower price. And he is like, why didn't anyone tell me I could have taken less at a lower price?

And I feel like sometimes founders are just, they just get caught up in the moment. They get caught up in this idea that like, the only thing that matters is up into the right. Minimizing dilution. And we'll see what happens. We'll see if the, if like that lesson persists

Harry Stebbings: I get in trouble for this when I say this, but I feel this when I see like two on 20 YC rounds and I'm like, with two on 20, you are automatically excluding any top venture firm [00:27:00] because really the 1.6 is gonna be available for a lead, which is what, 7.8%. You are not gonna do something for 7.8%. It's not worth your time.

Trae Stephens: right.

Harry Stebbings: instantly it excludes them. So I have to ask a bit of a weird one. Doug Leoni said on the show that Venture Capital has moved from a high margin boutique business to a low margin commoditized industry. Do you agree with him? And will we see venture returns degrade as a result?

Trae Stephens: I definitely think there's truth to that, that statement. I think, you know, the industry has certainly become significantly more competitive and commoditized. at the same time, the returns end up being pretty highly concentrated towards the winners. you don't see like really high IRRs across every new fund that pops up.

there's definitely still a great potential for the asset class, as an asset class. but certainly like. As you know, Peter points out in his book, zero to One Competition is for losers and it will always be for losers, I don't care if it's venture capital or startups or any, it's competition is for [00:28:00] losers.

And so we need to figure out ways to differentiate and stand out.

Harry Stebbings: What do you think is your biggest challenge today as Founders Fund? I remember, when I had Keith on the show, Keith said about just finding the next generation of great talent and it being a young person's game, which I thought was an interesting answer. What do you think is your greatest challenge as Founders Fund today?

Trae Stephens: deal flow is always the biggest thing for venture capital. It's like you have to have access to the the deals that are going to move the needle. And for large funds, the economics only really work.

If you have a 10 plus billion dollar winner in every fund, or more than one in most cases. you have to evaluate yourself on whether or not you got hits on those, monopoly style winners. that's just about maintaining access to the network, and being super easy to work with.

And I think Founders Fund has the latter in spades. Like, you know, we, we were the first fund that was talking about being founder friendly. you know, we don't generally want to take board seats. we are incredibly hands [00:29:00] off and operationally, helpful when asked, but only reactively. and the former is the harder part though.

It's like you have to make sure that you are seeing all of these companies, that has to be the focus for the entire investment team.

Harry Stebbings: Do you think the best founders need their VCs?

Trae Stephens: you can definitely get good advice from people throughout the industry, whether it's other founders or VCs, and a great founder will seek wisdom from people they trust that have experience that's relevant to what they're doing.

Do I think that doing that in the structure of like, gather a bunch of investors on your board is the way to do it? No, I think that's really stupid. Any company. that successful is not successful because their VCs are really smart. That's not how this industry works. The VC is not gonna do the, the hard work that's involved with building a company.

The best companies are going to be the best companies because the founder and the team that they've built around them is awesome and has a plan and a vision for the future. the best the VC can do is ride along and [00:30:00] not be annoying and not create drag for the company. maybe on occasion they can provide some advice or introductions that are helpful, but that will not be the reason the company works.

Harry Stebbings: You know, venture is today kind of put in two worlds. You've got like the boutiques who have specialisms and you've got the kind of capital accumulators, Andreesen, and Sequoia and CO two and NEA. Where is Founders Fund? Because you guys like reduced your fund size? The fund sizes themselves, I don't believe are actually that big.

I mean they're, that, I think it's about a billion dollars each, which is

big, but it's by no means the large, large funds that we see at other funds. Where do you sit in capital accumulator or boutique?

Trae Stephens: that's a good question. I, I think probably somewhere in the middle. we have a lot of money under management. but we also are very intentional about playing. our core venture strategy. And so we're not trying to be cute with weird structures and debt instruments and big category specific funds, nothing like that.

Our [00:31:00] core vision is we just want to invest in the best founders building the best companies that are going to be category, category defining. And I think you can do that through a very traditional venture model of can we get a check into the series A and can we follow on to the ones that are working?

Uh, and that's what we do, and I think that's what we're always going to do.

Harry Stebbings: So Tre, you mentioned the follow on there. I have to ask this. I think reserves are a delusion. I think it is too difficult in MA majority of cases to know which company is truly a value generator and which just has momentum, which is different to true sustainable value generation. What have been your biggest lessons on reserves and how do you think about that?

When I hear, when I say that.

Trae Stephens: Well, I do think it's important to hold reserves to double down in places where you see fund returning potential. I don't believe that doing that in a way that's like guaranteeing your portfolio company is that you have like reserve checks that are going to back into them. I don't think that model makes sense because, and this is by the way, the biggest risk of taking seed money from an institutional fund is that like, doing your pro rattus [00:32:00] super lazy, doing more than your para rattus is actually a signal.

And if you're not going to have real signal, if you don't have high conviction, you probably shouldn't be doing anything at all because the pro ratta again, is just super lazy. the strategy really should be, make your bets and then where the conviction is justified, you should be doubling, tripling, quadrupling down.

and so you do need to have fund access to do that so that you're not striping across a bunch of different funds. but I don't think doing that in a really, like structural procedural way is smart either.

Harry Stebbings: Do you think about downside protection when investing? You guys also invest large checks. Do you think about downside protection given the size of checks you write, or is it all upside maximization? In the words of Brian,

Trae Stephens: All upsize maximization. No. Down downside protection's. Silly. Like I think if you go back and you look at our portfolio, like whether or not we got our money back has never impacted fund performance. Like the only thing that moves the needle for a venture fund of our size is 10 plus billion dollar category defining winners.

That's it. Everything else is just [00:33:00] surrounding error to zero.

Harry Stebbings: what's been your biggest loss and what did you learn?

Trae Stephens: Well, I've only been in the industry for 10 years. the reality is, is that startups survive for longer than anyone thinks they will. there are certainly investments that I've made that are still, you know, puttering along, haven't figured out a way to hit the, the inflection. but I wouldn't call them a loss.

the biggest thing, the biggest lesson that I've learned from these is that there are times where I've gone in and I've said, this has 10 x potential from where it is right now, and therefore it's probably worth making a bet. I look back on some of those investments that I've made and I've said, even if it 10 x from, you know, a small series A, it's not gonna return the fund, it's not gonna really move the needle.

really I should be focusing on finding massive upside. 'cause the opportunity cost of deploying these checks, is, is actually quite high.

Harry Stebbings: But do you not think you will always underestimate the size of your true winners? You know, if you look at all of Bessemer's memos, Shopify, I think they put at a $2 billion company. Snap, was [00:34:00] sought to be a $500 million company. Procore a $300 million company. These are across different firms. I'm not just chastising Bessemer.

Trae Stephens: Yeah. Yeah.

Harry Stebbings: but you always underestimate the size of your winners. You know, Peter and Facebook as a core example, no one would've expected Facebook to be what it's.

Trae Stephens: I think the example that you just offered is exactly what different differentiates Founders fund pushing your team to do things like deal memos, for example. Forces them to like put down a number that they're later going to be judged by. So the investment team is gonna go back and they're gonna look at that investment memo and they're going to say, wow, you outperformed expectation on this deal.

Isn't that great? if you don't hit it, you know you're gonna, you're gonna be held accountable for missing. And so of course everyone is going to underestimate because they wanna lower the bar that's required for them getting credit for some big outcome. At Founder's Fund, we won't do the investment if we don't believe it can return the fund.

And so we absolutely have to have crazy amounts of conviction to make these bets. And I think that is like core to our culture. [00:35:00] If you look at any of the big outcomes across our portfolio, whether it's Spotify, Stripe, Airbnb, Palantir, SpaceX, and or, STEM centric, like you can look at all of these big outcomes for us, every single one of them.

That was someone on the team banging the table saying This is a hundred billion dollar company.

Harry Stebbings: so when you have to have this level of upside, do you not put market first above founder? Because if a founder is in e-commerce honestly, the chance of it being a hundred billion dollar company It's just so freaking hard So my question is, do you prioritize markets over founders given the importance of upside maximization and true upside only being available in very, very few markets?

Trae Stephens: no, because I think the, the best founders are going to pick really strong markets and they will increase the probability of success, even in like a, a middling market. I, I think the founder has to be the atomic element always. but obviously like there are going to be great founders that do, kind of middling things.

I wrote an essay called Choosing Good Quests that, uh, you [00:36:00] can read online with Marky Wagner, who's actually one of our portfolio founders as well. and I think this is like endemic actually in Silicon Valley, where you have all these really talented people that. Have the potential to go and do something that's like world changing, and instead they do something that's easy, that they know they're gonna make money from.

It's like, George Clooney sells tequila on the back of his brand. Good for George Clooney. It's a commodity. There's nothing special about his tequila. It's the same thing with enterprise SaaS. If you're like a multi-time successful entrepreneur, and you're starting like, a fairly simple, trivial enterprise SaaS company, like shame on you, shame on you.

you need to go big. Like have some vision for how you can impact humanity.

Harry Stebbings: Don't just ruin my investment thesis. Okay? I like boring enterprise SaaS companies. You come with your fucking defense and space companies and you tell me that B2B payroll's bad. Damn.

Trae Stephens: there are some great enterprise SaaS companies, I think there are some great founding stories behind enterprise SaaS companies as well. [00:37:00] I just think that as, as a category, there are a lot of them that are pretty uninspired.

Harry Stebbings: Will you back a founder when you hate their idea? You love them, but you hate their idea.

Trae Stephens: there are plenty of situations in which I've done exactly that or I've at least been tempted to do that. again, the founder is the atomic element. A really great founder and team are going to be able to pivot their way into strong product market fit. whereas a great idea with a, a weaker founding team, are going to get stuck, and will likely spin out.

So you have to start with that founder aspect first.

Harry Stebbings: Can you tell me about a time when you thought a founder was great, they turned out not to be, but like, what did you not see that you wish you'd seen?

I backed this incredible data scientist out of this amazing company, and everything technically was great, but they were an operator, not a founder. And the speed was slow, the creativity was low, and they were an amazing operator, but actually they were not a founder.

And I misjudged and I [00:38:00] overestimated their founding ability because their technical ability was so strong. Big mistake.

Trae Stephens: Yeah. Like, I would say the most common example is where you have a founder that doesn't build like a, diverse enough set of skills around them with the rest of their founding team or their executive team.

And they assume that their, you know, specific superpower will be enough to make it work. Because there are a lot of brilliant people. Some of them are like scientists, some of them are, software engineers, some of them are business people. you know, you could have like a, a sales founder that it could be revolutionary and could change an industry.

but they need to have a complete team. And so I think sometimes I've gotten really excited about a, a single person, and then it turns out that there isn't a completeness of team. Maybe that person does not have a, a particular strength in, recruiting, and that becomes super problematic for the business.

So I think like you wanna see the depth and bench, with even the best founders.

Harry Stebbings: but how quickly do you know if a company's good or not? I think, you know, in the first month.

Trae Stephens: Wow, that's really fast. I don't know if I would say the [00:39:00] first month, but definitely in the first six months. I think you can get a sense for momentum. There's almost nothing as important as momentum in startups. there's this, I think, idea, especially in deep tech that like if you just hold out long enough, like eventually they'll cross enough tech milestones that like things will seem like they're, you know, starting to move.

And even in deep tech momentum turns out to be the most important thing. and you can see that. You can feel it, it's visceral. and I think that it's definitely not five to 10 years. Like people often talk about as, as venture capital windows. And if you go back and you look at the best companies in any portfolio, they were kind of the best companies at every stage.

I. incredibly awesome at A, they were incredibly awesome at B, they were incredibly awesome at C. Very rarely do a c. A company that like struggled for a long time and then like suddenly hit an unlock. That doesn't really happen that often.

Harry Stebbings: I could push back on that one. Like Figma for sure, was not hot in the early rounds. Took a long fricking time for anything to come out. Your HubSpots of the world were not [00:40:00] really very hot. Took a long time for much to come out, Veeva on the vertical SaaS space, definitely not hot, but unbelievable, $35 billion business.

I'm almost like, there's always a trough of disillusionment that a company goes through, even in the funding markets where it's like, eh, this is the earth round.

Trae Stephens: I think those examples are less common than the ones where the momentum drove them all the way through. I don't disagree with those specific examples. I just think you're cherry picking very specific examples that are the exception, not the rule.

Harry Stebbings: Listen, I'm smart with my usage of data. Okay. So just give me some credit. Uh uh, my question to you is, you mentioned there about kind of timing of, of deep tech startups in particular. I'm always just like very focused on market timing. I never like to take market timing risk. You clearly do, which I love.

I mean, that's some real kahunas. how do you think about market timing risk as an investor today and as a founder? both.

Trae Stephens: I, I think that it's not on me as a venture capitalist to evaluate markets and then pick [00:41:00] companies to time some arbitrary thesis I have for any particular market that's like. asking too much. VCs are not super talented specialists in any one space. Like the best VCs are kind of generalists.

and that means that they might have like a shallow understanding of a wide set of things, but they probably don't have like some massive polymath death of understanding of every type of company they're going to look at. And so I think it's really on the founders to communicate why the market timing thing is relevant to their business and the best founders are able to do that in a way that's super compelling.

Um, and so again, I think this comes down to like, do you have conviction?

Harry Stebbings: Oh, thank God I don't have to do it. Then. Uh, Chris Dixon actually said on the show yesterday to me, I, uh, I like to predict the future, and then kind of find companies that align to that prediction. Would you very much disagree with that in terms of a style? It's not disagree, but you have a very different style.

I take it.

Trae Stephens: Yeah. as a founder, I think, yeah, Andel in my, in, in some way was me predicting where I thought the defense market was going to go. [00:42:00] Um, and so as a founder, I, I think that is what their job is as a vc. I think like your investment thesis is only as good as the strength of the companies that come and pitch to you.

And so did I have like, some super crazy interest in supply chain and logistics bef, or a thesis in supply chain and logistics before I invested in Flexport? No, of course not. Like I needed Ryan to like, convince me of. the timing to the market. And so I think that like anytime you're, you're looking at a thesis about the future, you are saying there's a category and I have like some belief in that category.

And that means you're probably too late. Like if you're, if you're like, I have a thesis on SpaceX Space Tech, but you're not a SpaceX investor, you're probably losing money. If you're like, I have a thesis in crypto, but you're not in Bitcoin and Coinbase, you're probably losing money. If you have a thesis in, cyber, but you're not in Palo Alto Networks or CrowdStrike, you're probably losing money.

It turns out that the core monopoly investment, that one is the only one that mattered in the rest of the category matters a lot less. So if you have some vision for what the future [00:43:00] looks like and you're looking for a company to invest in that's doing it, rather than starting it yourself, you're probably already too late.

Harry Stebbings: first, despite a decade in this business, clearly you haven't learned the core lesson tray, which is post making an investment that goes well. You absolutely did have the thesis that it would play out in this way, and actually it was all your prediction. You actually really co-founded the company, despite the fact you only put 50 K in at the series D.

my que that's my favorite. When you see those ones you mentioned there

about kind of the, the, the core taking so much of the value, and I agree with you, you look at your angels of the world, you look at your open ais of the world, so is your perspective as an investor and as a founder, then. Fuck it.

Don't try and do defense tech. Just do, and instead of trying to do ai, Just do open ai. Is that generally the right strategic play, do you think, for investors?

Trae Stephens: I mean there will be other companies that might be worth taking a bet on for sure. you know, if you were a social media investor, you missed [00:44:00] Facebook, but you had got conviction and invested in Snap. You actually did pretty well there are exceptions. There are places where you should stay open to the idea that there's a brilliant founder and a team that has the ability to go and to make something in, in a market.

But I think that this idea that investing broadly across an entire category where you're doing relative rather than absolute assessments is just bad strategy. It doesn't make any sense. Like there's not gonna be a hundred SpaceXs. There's probably not going to be two SpaceXs, but if there are, you should just be making that one investment in like a really high conviction thing that you would've done regardless of whether or not you were looking at that category.

yes, that might be a vi violation of the rule of, look at me. I'm so smart. I don't think I'm so smart. I think like the founders are the ones that are really smart, that are changing the world, and I'm just lucky to be on the ride with them.

Harry Stebbings: As an investor, yes, I agree with you, but as a founder you are on the flip side of that. And so I do just wanna flip to that. 'cause you said you have to paint a compelling case for why now and why it is more exciting. Never today than it [00:45:00] was in prior years. What was your insight development, the way that you saw the world differently to others with that you really had from day one that made you want to commit so much of your life to it?

Trae Stephens: I, I mean, I had spent my entire career in national security. I worked in the intelligence community after college. and then I was at Palantir really early on supporting intelligence and defense, programs. this was a space that I've always been really passionate about, I learned a ton of lessons from that 10 year run prior to, to joining Founders Fund.

And started going out and meeting with as many companies as I could find that were bidding on federal contracts and also raising venture dollars. And I was shocked at how little there was going on in leveraging, cutting edge technologies, particularly in software, to impact critical national security requirements and gaps in our capabilities.

And, I, I kind of looked at that space and said. this is not gonna be good if we shift out of counterinsurgency and counter-terrorism into great power conflict. And if we're going to compete in great power [00:46:00] conflict, we need to like actually bring a software defined mentality to our national security apparatus.

Harry Stebbings: pause. pause. What's great? Power conflict. Just so we're aware, this is like global war instead of just traditional counter-terrorism. Correct.

Trae Stephens: no, it's specifically like we're no longer competing with like rogue agents and non-state actors. our co competition are huge nation states with, a lot of power resting behind them. Places like China, Iran, Russia, we had for over a decade, really like a decade and a half, we had just been entirely focused on counterinsurgency, the problems that you're dealing with, with things like, airspace superiority in Iraq or Afghanistan, totally different than determining airspace superiority in Ukraine or in, you know, a potential Taiwan conflict. And so we really needed to like shift to a mentality of how do we compete with great powers, and how has that changed since the last time we did this during the Cold War?

And the answer is significantly, the capabilities, the huge expensive platforms [00:47:00] that we built for competing with the Soviet Union are not particularly relevant in a future conflict with, you know, a China or in Iran.

Harry Stebbings: in terms of like how they're so different, how are they so different? what were we woefully unequipped with?

Trae Stephens: Yeah, so like when we were preparing for a fight against the Soviet Union, we were building nuclear submarines, aircraft carriers, advanced fighter jets with the idea that we're competing with MIG 20 nines in an airspace. so if you have to build like a counter air system and you're shooting a two and a quarter million dollar missile at a tens of millions of dollars, MIG 29, fine.

that's a trade off you're willing to make. But in modern conflict, we're talking about swarms of drones, kamikaze drones, low cost, remote, remote controlled systems. You're talking about autonomy. And so can we afford to shoot a $2 million patriot missile at a $150,000 cruise missile or kamikaze drone?

No, it doesn't make sense anymore. Now the whole thing is just messed up. And so when you're not fighting MIG 20 nines, you have to make decisions about how you're going to do airspace [00:48:00] superiority. And this translates to every domain. It's like we have to make the same decisions with undersea, with surface vessels, with ground vehicles, with airspace, with space.

Harry Stebbings: Okay, I, I get you totally. What worries me is two things. One is customer education. When you are selling to governments, in a lot of cases, the level bluntly of intelligence around the latest use of ai, or the latest use of L LMS or the latest use of any of the things that we talk about quite brazenly in tech, is so low.

How do you approach a customer education when it's a really challenging start?

Trae Stephens: I think this is core to doing work in this particular sector. and it's not the field of dreams, you know, like if I build a really cool product or capability, it's not like the government's just gonna show up and be like, yeah, I'm a buyer of. Whatever it is that you're building that you think is solving a problem, you have to have a, a holistic view of government relations, lobbying, being really good at telling a narrative, communicating to agency heads, decision makers, and your potential users in the field.

this is [00:49:00] like the type of company that's really, really hard to build, for a, a handful of teenagers in a garage. It's not like a, a software company that has like the same type of breakout story as Facebook. And I don't think it's like random chance that Palantir, SpaceX, and Andel were all founded by billionaires.

It turns out that it's that hard to do this. Um, and so you have to approach it with that in mind.

Harry Stebbings: What, is it the billionaire element that makes them successful? Or is it the structure of their teams and the knowledge and skill sets of their teams? ' cause brilliant people can raise billions of dollars. It's not the billions. It's the team composition of Palmer of you that make it special. No.

Trae Stephens: there is a capital advantage to having a billionaire as a co-founder, at Palantir and SpaceX. Certainly it took a really, really long time to get momentum on the business side of things, and so you needed to be able to raise money through a drought. While you were figuring that out.

at Andel, it's, it's a little different now because you, we have the benefit of standing on the shoulders of giants. we have done this before. We saw the way it worked with them. There are hundreds of [00:50:00] people who have executed this sales motion successfully. it's not quite as hard, but there's still a huge capital advantage to going in and saying, this is capital intensive.

It's gonna be really hard. we wanna raise a war chest to finance getting through to program of record wins. And this isn't something that's gonna take six months. It's something that's probably gonna take closer to three years. it is important to have the ability to go out and raise that sort of capital.

Harry Stebbings: Another concern that I always have is just like the incentives of bias. If you think about a lot of the incentives of these kind of bluntly, averagely, paid middle management government bureaucrats in a lot of international governments. Why would I bother buying Andrew? Now, it's obviously very well known brand, but in the early days when I've got established brands where I'm not gonna get, it's the same old LP argument in venture, just invest in X.

Well-known firm, how do you fix the incentive problem of buying from innovators

Trae Stephens: Yeah, I mean, as I mentioned before, with a different set of problems. I think this is primarily a culture problem. All of the authorities that need to exist [00:51:00] to buy products from non-traditional, I. companies, they all exist. You can do it. If the government wanted to do it, it could do it. The problem is, is that they don't, they don't feel as comfortable with it.

They claim that it's a much riskier path. I happen to disagree with that particular fact, but I think, I think the reason why in the early stages people were willing to take a chance on us is that we were working very focused on problems that were clearly software problems. And I think they had had like long running bad experiences with the traditional players in the space coming to them, delivering capabilities that relied on the technology delivering the against the problem set.

Depended on software execution. And so when we come in and we have a demo and we say, we can actually do the thing that we know you're trying to do and we can demonstrate that to you in real time, and we've taken the risk of funding the development of those capabilities, we're not asking you to tr like, believe us and like a response to an RFP.

We're just gonna show you that we can do it. and that shifting that risk to us, rather than putting it on the government was [00:52:00] really important to those early wins.

Harry Stebbings: what year was Andrew F founded? 2017.

Trae Stephens: 17. Yep.

Harry Stebbings: So did you just have a crystal ball and predict the explosion of global conflict? 'cause we could have continued. We could have continued in this period of Deante for another 10 years and the need for Andrew would've been lesser than it is now, for sure. Was it just lucky on timing? Dude, that sounds awful. Not lucky on

Trae Stephens: No, no. Yeah, like I said, I'm not, I'm, I'm gonna do the opposite of what Chris Dixon did, and I'm gonna say I don't have a crystal ball. I'm not predicting the future. I think all of us in the, on the founding team of Vanel, like we perceived that we were going to care a lot more about these things, post count, post insurge, counterinsurgency, counter-terrorism.

but obviously, like I would not have guessed. All these global conflicts would've necessarily happened. but I think the writing has been on the wall for a while, that globalization didn't really work, and that traditional strategic deterrence with nuclear weapons was not [00:53:00] going to be the, the only thing that drove, reduction in conflict globally.

And so, I think there was, there were some smart decisions that were made and I think we had a lot of conversations about those, those elements. But I certainly wasn't like standing at a whiteboard, you know, with lines and pieces of yarn and pieces of paper being like, and you see China's going to, I, I, I don't think I had that level of insight.

Harry Stebbings: We got Putin coming down the left. Uh, that's 2023. We.

Trae Stephens: To be fair, shortly before Andro was founded, Putin went, to a university, a technical university in Moscow. And he said he who controls artificial intelligence will control the world. And so we weren't the only people that were thinking about this. He had clearly been telegraphing his intention, with tech development in Russia since even before end roll was started.

Harry Stebbings: I'm just gonna lob this one in. Well, you not quite impressed with him in Tucker Carlson's interview.

Trae Stephens: I mean, the level of historical depth was, was really special. my concern was, was less about like, [00:54:00] is Putin impressive? Is he unhinged? it was more so that like, man, we have really just allowed our Western political system to just be destroyed. I. By mediocrity. our standards for our elected leaders are like bargain basement level.

It's really pathetic I don't know what it's going to take to convince talented people to put themselves in a position where they're running for political office, but I think this is a great risk to human civilization at this point. we need to do a better job.

Harry Stebbings: I'm not being rude. Why didn't you? So like, it's fine. No, but it's fine for us VCs and like, and, and startup founders as well, to say like, God, what a woeful state of politicians. Well, I mean, we're pretty smart people, but we choose to be in the private sector a lot of the time because it's more lucrative because we see a better life.

But if we really thought that it could be improved and you know that you could do a better job, should you not take that on

Trae Stephens: I mean, I, I am deeply committed to the idea that I will return to civil service at some point in my career. I don't know what, [00:55:00] from a timing perspective that will look like, but I'm deeply committed to that. as far as elected office goes, my wife, who I love very much, has told me that she will divert divorce me if I ever run for office.

And so elected office is off the table.

Harry Stebbings: so you said, God, it was that easy. Okay. Sold. I.

Trae Stephens: Yeah. She really doesn't like the idea of being married to a politician, which I get. I'm okay with that.

Harry Stebbings: What was the most non-obvious reason for the success of Andel? Like amazing team Complimentary skills. Yes. Timing. Yes. What was like the no one thought of that, but it was really core to the success.

Trae Stephens: I think you kind of hinted at this around like having a, a, holistic view on skills, but I really want to beat the drum and say, you have to be good at selling to the government to make companies in this sector work. you either have enough money to survive being bad at it for a long time.

Or you know, what you're doing from the beginning. And I think there are way too many companies in this hype moment that are approaching this and saying like, I'm just gonna build something really cool that war [00:56:00] fighters love and expect that that's gonna be sufficient. And it's not. And that's what we knew from the beginning at Andel.

And that's probably the most prescient thing we did, is to say, we're gonna hire a lobbyist literally in the first week of the company's existence, and we're gonna build the relationships that we know are going to be important for authorization and appropriation of funds to the pro programs that we're working on.

And most startups just, they don't have the background to understand that they don't have the, the fi, the capital to do it even if they, if they did understand. that's a big differentiator.

Harry Stebbings: We've seen like hard tech become successful or popular again in venture. Everyone wants hard tech again, and I think we're just gonna see a generation of venture investors burn a load of cash again on Hard Tech. I think it's such a different skillset investing in it compared to traditional enterprise software, FinTech consumer, and I don't think they fully understand or comprehend the differences.

Do you agree with me?

Trae Stephens: one of the most important things that I've learned about Hard Tech in the 10 years I've been at Founders Fund is that you have to have someone on the founding team who's as good at business as the [00:57:00] technical founder is at, the tech. There's just no way around it. The most successful hard tech companies always are paired with brilliant business people.

you can't, you can't just evaluate one side. You have to evaluate both.

Harry Stebbings: So Palmer is the technical genius at Andrew How, how do you characterize the, the, the teammates?

Trae Stephens: Well, we should keep in mind that the co-founder, CEO is Brian Chimp, who is the most brilliant software engineer I've ever worked with. And he ran engineering at Palantir actually before he came over to be the CEO at Andel. So,

Brian's kind of like the, the software, tech genius of the company.

Palmer is kind of the prodigy, polymath, hardware genius. they both work very closely together on product, like making sure that the thing we're delivering to the customer solves the problem and solves it in a way that is efficient and reliable. and then Matt Grim, who's the other co-founder, he is the COO.

he like runs the day-to-Day operation. he is like a machine, making sure that all the trains are running on time, which is hugely important.

You mentioned delivering to end customers there. Do you sell to everyone? [00:58:00] there comes a point where one has to have some morals, how do you decide who you sell to?

Yeah. This is, this is probably like not to put a, you know, a target on your back, Harry, but this is the most naive question that non-defense people ask. Because the reality is that we don't, we don't decide, the US government decides there aren't very many people that we can sell direct to, like the uk, Australia.

Like there's just not that many people that are buying direct.

Harry Stebbings: you can't sell direct to the uk,

Trae Stephens: No, that, that's what I'm saying. There are very few that can buy direct because they have adequate budget and they have the existing relationship with the United States that allows for these source of arms transfers

Harry Stebbings: can any national government not buy from you? I'm really sorry for being naive.

Trae Stephens: Definitely not. No. We're selling, we're selling munitions. We're selling government controlled ITAR restricted technology that the US government has to facilitate the, the transfer off. And so it's the US State Department that's deciding who they're going to [00:59:00] send the, the tech to. Not like random governments making decisions on money that they're spending.

Harry Stebbings: so you, you can't just choose the Democratic Republic of Congo just for a, just

for a laugh on

Trae Stephens: no. We,

we can't just randomly sell to governments that show up with bags of cash. That all is facilitated by the US DOD, the US Department of State. Obviously like we have to have conversations as an executive team about like which use cases we're passionate about working on and stuff like that. But we are like massively controlled by the US government when it comes to like where we're allowed to send our stuff.

Harry Stebbings: But the US government has made a ton of very, very serious severe mistakes around the types of allies they support over the years. The mujahideen, in many respects, being one very obvious and clear one saying, oh, we, we kind of follow them. Well, they're clearly not a great picker.

Trae Stephens: Uh, yeah, I mean there's obviously like questions that, that you should ask, but at, at the same time, like if the US government comes to us, let's say that we were making stinger missiles, during the, the early [01:00:00] Afghan conflict with the Muja mujahideen against the Soviet Union. If the US government comes to us as the producer of Stinger missiles and says, we are supporting the mujahideen in their fight with the Soviet Union, we want to to transfer a thousand stingers to them, uh, in the next six months, and we want you to produce it.

Is it on us to decide, no, we don't want to do that because we have some thesis about what's going to happen in this conflict in 20 years? Or is it our responsibility in a democratically elected governmental system to say, we are supporting the Department of Defense's decisions about what they're doing with the equipment that they're buying.

And if we don't like it, we can choose to vote against, our representatives. We can advocate inside Congress for people to make different decisions, but like if they have stuff in inventory, they have the right to send it abroad anyway. Whether or not they're buying it for, for us, for that purpose, or it's just been sitting in a warehouse.

But I, I do wanna ask, I listen to you talk now and I'm like, wait a minute.

Harry Stebbings: You run deals, you're a GP at Founders Fund, you're running like parts of Angel. Also there's Soul, which, sorry, Tre. Respectfully, [01:01:00] I didn't even know you did Soul as well. how the fuck do you spend your time.

Trae Stephens: It's, it's tough without a doubt. I set boundaries. I mean, I have, as I said, a love lovely wife and two awesome kids. They're 10 and eight. I make sure that I'm, make them breakfast, drive them to, to school every morning, and I'm with them for dinner every night that I'm not traveling. it's really important to me to like be present for my family as well.

I have an awesome support team around me. I think that's like the only way that this is possible. I have an EA who's been with me the whole time. I've been at Founders Fund that is truly world class. my chief of staff, Ellie Untermeyer is, uh, she's been with me for the last nine months now, and she's, makes sure that I know what I'm doing and staying on task and, keeping my priorities in line.

Um, at Andro we have an incredibly talented executive team, and I manage a portion of the business, not the entire business. And we have a high trust relationship across the entire exec team.

Harry Stebbings: Do you segment days and times for different companies? Is it much more flexible? Do you choose what you are working on per day? Is it very [01:02:00] reactive?

Trae Stephens: it's not that structured. It's, it's much more reactive and flexible, in any given day. You know, like today I had a pitch meeting and then this conversation, and then I have two andel meetings, and then I have another pitch meeting, so I'll, I'll kind of like bounce back and forth between them.

I think the important thing is like having that support team that's identifying the priorities and making sure that I'm like staying on track of making decisions where I need to make decisions that are high priority at any given moment.

Harry Stebbings: Are you a better investor now that you are founding companies as well?

Trae Stephens: 100%. The entropy on knowledge of operationally being engaged with the startup is so fast. all the things that I did at Palantir for six years, like I feel like were relevant for like my first three years at Founders Fund. And then like the software that we were using to do things is different.

cutting edge on the technology side is different. you're just constantly going through these shifts. And so I think being in a place where I'm operationally engaged at Andel, I'm up to date, like I know what people are using. I know what is impacting our business in a meaningful way.

I [01:03:00] know what stuff that we're, we started using that ended up kind of being not that useful that we turned off of. I'm keeping up on a day-to-day basis. And I think that that's, that's a super valuable asset to my other job as a partner at founder fund.

Harry Stebbings: we see the collisons, we see Sam Altman. We see many great examples of. big founders investing big, big dollars is the future of venture, actually, founders investing.

Trae Stephens: I, I think it would be better and more interesting if it were. because I think that most of the advice that I have gotten the most out of is from I. Existing founders or former founders or operators, they're the ones that have lived in those shoes. They're the ones that have, wisdom that I can glean.

and I think that if venture is about anything other than just access to capital, the people that have been operators are, are going to be much more useful.

Harry Stebbings: Trey, I could talk to you all day. I wanna do a quick fire round with you. So I say a short statement. Okay. Hit me. You have, many different hats being a father as one of them. You can call yourself up the night before you became a father and give yourself one piece of [01:04:00] advice. What would you tell yourself?

Trae Stephens: I think I would say this is going to be the hardest 18 month stretch, stretch of your life. And it is worth it in every way. just keep your head down and realize that there's light at the end of the tunnel.

Harry Stebbings: What have you changed your mind on most in the last 12 months?

Trae Stephens: Most of the answers that I could give to that would definitely get me canceled. So I'm not gonna, I'm not gonna say those things. But, um, I think there are limits to human scalability. I went through a long period of my career where I was opportunistically saying yes to a lot of things that benefited me tremendously, that I feel really good about, that I just don't have the ability to say yes to anymore.

And so I think, learning how to scale and then using NOS strategically, has been a big ch change for me in the last year.

Harry Stebbings: Biggest lesson from working with Peter for 10 years investing.

Trae Stephens: Oh man, he's such a unique person. most smart people have the ability to collate information. Like we collect information from a lot of places and then we organize it and ship it. he's source material. he's not collating information. He's just generating.

I [01:05:00] could talk for days about all the things that I've learned from him. the most critical to this particular moment and what we went through in 20 20, 20 21, is that hype is not aligned with outcomes. In fact, it's often negatively, correlated with outcomes.

And so when something feels super consensus, you should be running away, not running toward

Harry Stebbings: It's so funny how kind of the most conventional rules of venture are so true, but no one ever listens. It's funny, if you could choose one person as a board member, who would you choose?

Trae Stephens: No one. Smart people are accessible whether or not you're on their board, they're on your board. You can take advice from people anytime. The last thing you need is unnecessary governance. No one,

Harry Stebbings: Does money make you happy, Trey?

Trae Stephens: no. money can like simplify things that are complicated or tedious in life. but you'll never find core meaning from the acquisition of wealth. everyone that has gone through this process, I think comes out on the other end and says that there's an, a deep emptiness that they fill, that it doesn't matter how much stuff they pour into it, it'll just never be filled.

Um, you have to like, [01:06:00] understand the anthropology of your humanity and come to terms with, what, for me is a, a. Religious, spiritual, faith, but for other people, they might try to find that in all sorts of different things, but money is certainly not one that gives you meaning.

Harry Stebbings: Has your spiritual faith impacted your investing mindset?

Trae Stephens: Hugely. I, I think like, a lot of people, and this goes primarily for like my upbringing even as well, there were a lot of people that they viewed their job as a way to pay their bills, right? It's like, I'm gonna go to work nine to five, I'm gonna make money, and then my life will be what I do when I'm not at work.

Because the work is just like a mechanism to generate cash, to survive. I think this is like a deeply un theological way of viewing the world. we have a, a, a responsibility to our vocation. And it doesn't matter what you're doing, whether you're a barista at Starbucks or you know, starting a defense company, that is your vocation you are living in service to humanity.

And so I think as an investor. As a person of faith, I look at the world and say, I don't want the world to be a science fiction dystopia. Like I don't wanna live in, you know, all these Hollywood [01:07:00] pictures. I want the world to be, approaching the kingdom of God. Like I, I think we have a role in, in building that.

And so as an investor, when I look at something and I'm like, yeah, this is a vice investment, maybe it's probably gonna make a lot of money because it leads to addiction or loneliness or, you know, whatever. I don't wanna be involved in that. I don't want to be involved in stuff that might be a good economic outcome, but is going to lead us closer to a science fiction dystopia.

Harry Stebbings: How big could Andrew be? 8

Trae Stephens: Uh, I mean, Lockheed Martin does over $65 billion a year in revenue. They have, you know, a two, two and a half X multiple, that's applied to them on the public market. It's worth, you know, $130 billion or whatever. Andel operates at higher margins, much faster growth rates. we could be worth over a hundred billion dollars with a tiny fraction of Lockheed's revenue.

So, I'm incredibly bullish on, the path that we're heading down and the speed at which we're growing.

Harry Stebbings: you hate memos, but in memos that you always write a kind of post-mortem, a reason why, or a pre-mortem, a reason why it won't work. If there was one [01:08:00] for Andrew, what would it be?

Trae Stephens: Oh, man. Uh, I'll, I'll give you two and I'll do it quickly. The first is like, if we build something and we ship it and it doesn't work, we deserve. To be crushed by the market. unfortunately, I don't think that actually happens. the, the big defense companies are constantly delivering things that don't work like they're supposed to, and they're never punished for it.

Uh, you can see this with like the way that the 7 37 max has been going for Boeing for a long time. so that's, that's one way that I think it could, in theory go south. The other way is that government cultural risk. we are coming to them with a very different business model. and the only way that we win at a scale that we're working to towards winning is if we win major multi-decade long programs, like core military platforms.

there will have to be people with courage inside the government to make a decision to go with a new player, to, you know, build a next generation fighter plane or a next generation counter air missile or whatever.

Harry Stebbings: Final one. Where do you wanna be in 10 years? It's 2034. Where is Trey then?

Trae Stephens: my goal is to stay super [01:09:00] opportunistic and not allow my current desires to overdetermine my future. that said, I will come back to a point that I earlier said I am deeply committed to the idea of civil service. and I don't know if it's in five years or 10 years or 15 years, but at some point I wanna be back, as a public servant, working for the good of our nation and our allies and partners.

And there are a lot of ways that I could do that. I'm very open to, to going down that path.

Harry Stebbings: And post 10 years, we can fit another carry cycle in as well. So very strategically timed.

Trae Stephens: It could happen sooner. It could happen in five years. I don't know. We'll see what happens.

Harry Stebbings: I just saw, uh, Arnold Schwarzeneggers. I'll be back when you said that. So, uh, Trey, I've, I've, I've loved doing this. Thank you so much for being so great and this has been so much fun.

Trae Stephens: Awesome. Thanks Harry. I appreciate it, man.

Scarlett 2i2 USB: I have to say are so enjoy doing that show. If you want to see the full episode in video, you can watch us on YouTube by searching for 20 VC on YouTube. Trey was incredible that I want to thank him so much for being so flexible with that ever moving [01:10:00] schedule. But before we leave each day,

Scarlett 2i2 USB-9: One thing I hear from my listeners all the time is that marketing leaders are under more pressure than ever to deliver real business impact. You know, more conversions, lowering customer acquisition costs and bringing in more revenue. But that's impossible when you're stuck with tools that don't move as fast as you do. That's why companies like Dropbox, IDEO and orange theory, all trust web flow to power that web experiences, web flows, visual first platform empowers your team to own your most valuable dynamic marketing asset.

Your website from launching a new site to optimizing for SEO and conversions. Web flow gives you the tools you need to drive business growth. Fast. Learn how teams like yours are using web flow to power, their web experiences and unlock vast. Our site's full potential today@webflow.com.

Scarlett 2i2 USB-8: I'm speaking of incredible products that allows your team to do more.

We need to talk about secure frame

Scarlett 2i2 USB-1: Secure frame provides incredible levels of trust your [01:11:00] 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.

The company is among the Forbes list of top a hundred startup employees for 2023 and business insider's list of the 34 most promising AI startups for 2023. Learn more today@secureframe.com. It really is a must.

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, manage and pay employees from around the world or from one [01:12:00] easy to use self-serve platform.

Plus you can streamline global employee management and cut HR costs with remote it's free HR. I S and Hey, even if you are not looking for full-time employees, Remote has you covered with contractor management, ensuring compliant contracts and on-time payments for global contractors? There's a reason companies like get lab and door dash trust, remote to handle their employees worldwide.

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-10: As always, I so appreciate all your support. Now stay tuned for an absolute buyer of an episode. This coming Friday with the one and only Mario Schlosser who saw Oscar house stock market price or market cap declined by 94%. That show is incredible coming on Friday.