MATHIASEN
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MARRY PASSION WITH REASON — APPROACH TO TECH INVESTMENT

Dear clients and friends,

I'VE OFTEN BEEN ASKED ABOUT my experience prior to starting this little fund of mine — how, instead of a more traditional finance career, my encounters in the startup-venture capital space would shape my judgement in making investment decisions.

Usually, I'd respond that investment is simply the embodiment of how we see the world. When there are differences between "the world as it is" and "the world as it should be", there are investment opportunities. Thus, it stands that whatever experience that gives us exposure to how the world actually works would be valuable, and understanding what the companies of the next generation look like sounds a pretty decent experience to me.

There is truth in that. But that was what I learnt in retrospect. I certainly did not think that way when I first started.

It was 2014, I just finished my six-month placement at Macquarie Capital. An investment banking position that I had always wanted, but I decided to consider other career opportunities. Was it my failure to see the connection between the work I did and my other aspects of life, or was it just my fundamental laziness to work the typical I-banking hours? I could not say, but I recall I carried a youthful pride in me. Thoroughly convinced that if I were doing well in business school, I must be good at running an actual business. And if I were to start a business, I should do something cool, purposeful, and revolutionary … whatever that meant.

Sometimes I would laugh at my younger self whenever I reminisce — how earnest, fierce, and humorless I was — aching to make a mark of his own on the world, wanting to be a part of something great and idealistic, which evidence seemed to show did not exist.

After all, it was 2014 and over half a decade after Steve Jobs launched the first iPhone. The mobile internet ecosystem just reached its maturity stage, with mobile gaming and social media companies planning IPOs. The Silicon Valley stories reached the shores of Asia. It seemed the media covered daily stories about several startups getting millions in funding.

However, it didn't take long for me to realize becoming a positive catalyst to change the world was not an easy feat, after all. The days were long, and we often found ourselves in many day-to-day operational struggles: we offered products the market did not need; customers complained; we looked for funding too early; we hired ill-fitting staff; we hired good-fitting staff but failed to provide them the necessary training to perform ... and the list went on. To a point, it seemed whatever grand vision we set out to achieve, it would have to wait and take a backseat.

Through these mistakes, I was learning a lot from the understanding of technologies to what this thing called “startup” is all about. But if there was anything I took away with me most, that would be the power — and the danger — of "trends".

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WHILE I WAS A LOUSY BUSINESS OPERATOR, I seemed to have a knack for providing makeovers. Even the roughest ideas and half-baked thoughts are easily cloaked with the mask of proficiency in the form of excel models and presentation slides. So after bouncing around in a couple of emerging technologies, I joined an advisory company.

Instead of launching a product of my own, I embarked on helping other startups with their strategy and fundraising. That sounded ideal for me at the time. A place for me to contribute what I knew, while I licked my wounds and decided what I wanted to do with the next chapter of my life. Nothing fancy, I thought.

Except, it was perhaps the most lavished affairs I had ever seen.

Before I knew it, I found myself in fancy hotel rooftop bars in Shanghai, Seoul, or Singapore, as I sipped my boulevardier and exchanged small talks with people I recently made acquaintance in the conference hall downstairs. We talked about work — the next hotshot companies that everyone in the venture capital space is trying to invest in — but most of the time we talked about something else: the fancy party our host organized the night before, the club we were about to go that night, and how we would spend our big fat profit a few months down the road when we exited the aforementioned hotshot company.

That was the kind of environment for a good part of 2018 when a particular segment in the startup space — blockchain — suddenly rose to popularity.

The uniqueness of the blockchain technology is very well-documented. Among other things, it enables digital transactions to be conducted without any centralized middlemen. In the case of bitcoin, it means banks and credit card companies could be replaced — by a network of unrelated computers — to process transactions in the digital world. In the case of Ethereum, it could mean stock exchanges and settlement houses could be replaced — again, by a network of unrelated computers — to process ownership transfer in the digital world.

On the surface, it does not sound sexy, but its implication was absolutely profound. **It essentially meant anyone could create a company that is publicly listed, without going through the vesting and due**

diligence process typically required by SECs or other authorities. It didn't take long for everyone to recognize its implication. People of all sorts of background rushed to create their own blockchain-themed companies and issue their digital shares to raise money; venture capitals tried to exit their loss-making investment by a digital share sale; amateur investors, who had no idea about the underworking but motivated by the extraordinary return of some of the early showcases, rushed into the space shopping for any such shares they could get their hands on. It created its own ecosystem, too. There were media, PR agencies, and event companies, again driven by the capital flooding in, covering exclusively this digital share space, promoting the next hotshot digital share sale, with events getting bigger, and parties not unlike those you would have seen in *The Great Gatsby*.

In retrospect, it's embarrassing to recognize the energy I had for my job essentially paralleled the money flooding into the market. While our company was found by a group of engineers and we claimed we only took in clients with a solid background and viable products, many of the PR strategies we implemented were precisely tapping into the FOMO (Fear of Missing Out) mentality of the market. We artificially limited the supply of certain products, fabricated the image of popularity for our clients, and created media hype. In other words, we were at the core of the exuberance machines, knowing perfectly that in a rational world, the valuation of our client would not even be a quarter of its current level. Objectives related to the actual running of a business, such as profits and customers, were all secondary.

Even now, two years or so after I left the venture space, I found myself asking how much of this part of the capital market had changed**. If I were a PE fund, what is there to stop me from selling my loss-making investment to a SPAC**, given most of the risks are already offloaded to the market? Are NFTs solving problems fundamental to art collectors, or **are they simply publicly traded solutions looking for a problem**? Perhaps, I am in no position to judge. Because, well … I didn't stay.

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IT MIGHT APPEAR TO MOST that the first "blockchain mania" died down because of the drop in bitcoin price. Except, the timing was a bit off. During 2018, even after bitcoin dropped from its all-time high of $19,000 to $6,500, losing more than 60% of its value, the blockchain investment space was still very robust, with new projects launching, conferences happening in various shapes and sizes, and some rapid hiring of new talents. In general, everyone was simply expecting bitcoin to bounce back in no time.

It was approaching 2019 when the music finally stopped. After years of zero interest rate and a prolonged stock market rally post-2008, the FED started raising the interest rate in 2017. By the incoming 2019, together with Trump's trade war and slowing growth globally, the market started to show concern about a rate hike too rapid. Uncertain whether the easy credit would continue to flow, S&P dropped almost 20% from its all-time high, and Nasdaq dropped roughly 23%. Around that time, I remember two moments vividly.

The first was at a venture capital conference at Hong Kong Cyberport. Among the guest speakers on stage was one of the prominent venture capitalists we used to work with. Let's refer to him as Daniel. Tall at almost 190 cm, well-built, from a pretty comfortable family, and invested in Lalamove within the first two years of setting up his own VC fund, Daniel often came across as very confident, almost borderline arrogant. But that day, he was shockingly modest. He suggested startups be prudent with their expansion plan, and the fund he ran would probably be on a hibernate mode in safekeeping its remaining dry powder — because "it is a capital winter now." he said.

I also remember an internal meeting at my firm that took place about a week later. The CEO and the finance team notified me that our revenue was not looking good, and I had to let go of one member of my team.

If there is such a thing called "American Exceptionalism", the earnest and idealistic side of me used to believe there was an "Innovation Exceptionalism". As long as a technology is useful, fundamentally contributive to people's lives, they should be immune to the world's macro environment, irrelevant to things like interest rate or growth; that as long as there are bright people who work hard, innovation would keep coming, our planet becomes a better place, food and medicines in abundance, and eventually lead a world free of poverty and disease.

But 2019 was the point when I finally realized that **both the rise and fall of innovation are indeed part of a macrocycle**. Capital, the almighty invisible hands, had always been at work behind the scenes. Not only was technology susceptible to the macro environment, but it was also more sensitive and volatile than many other assets.

Later that year, WeWork failed its IPO, SoftBank Venture was in an uproar, and I took a break from startups.

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IF MY PERSONAL CONTIBUTION to the venture space was small, the experience changed the arc of my career.

For starters, I rediscovered my love for macroeconomics — the content of my work required me to go back to understand the various forms of monetary systems, the history of gold, and in extension how do they relate to the power dynamic of nations. It helped me see things from a macro angle and challenged the most basic assumptions about our economy — where did the value of an asset come from.

Paradoxically, it also got me out of my head. I had to listen to, and not only theorize about, what matters to businesses and capitalists. I experienced failure and rejections, and I learnt that there is so much more to business than what is available on financial statements and the Bloomberg screens.

But the greatest gift, was the meaningful relationships I forged. People who inspired me and made me trust the good faith in people. And one of them was Rachel. Again, this is not her actual name.

About 160 cm in height, with long dark hair usually in a ponytail, Rachel graduated from Peking University before joining Google. And after a few years at the job, rotated between offices in Dublin and Tokyo and climbed up to a managerial position, she decided it was time to build a company of her own.

By the time we met, her company had already grown to a formidable 50-employee team, with offices in both Beijing and California, supported by some of the well-known venture capitals including ZhenFund and IDG Capital. We worked together for about four months. It was a project to help her with the next stage of fundraising strategy. In a bid to do that, we formulated the growth strategy for her products, planned a series of media coverage, and cultivated investor interest.

Over the time we worked together, I got to see Beijing in unforgiving snow, and experienced its delightful breeze in Spring. I also got to appreciate Rachel's execution skills. She was tough, pragmatic, and a master at herding people around her. She gave the team unwavering trust while was also fully present if things turn south, ready to roll up her sleeves to remedy any situation.

The project went on smoothly and we were about to sign our first group of investors, until something happened — another company, with a very similar name, popped up from nowhere and threatened to sue Rachel for infringing their trademark.

Normally we would have taken this as a joke, given the counterpart's company size, users and products were nowhere close to the scale of Rachel's. But it was an inopportune time! The fundraising window for early-stage companies like Rachel's was usually short. Once the media hype we built up cooled down, capital either moved on to the next deal, or they questioned why it took a long time for a deal to be made. Apparently, this was what the counterparty was gambling on, and they were demanding a settlement deal that was hard to swallow: on top of a monetary settlement, they asked for an option to the company's shares.

I remember we had a meeting with Rachel at her office. It was late at night, and she just got off from a red-eye flight. Whether it was the lack of rest or the tremendous pressure she was under, she teared up. She explained under such a situation, it was very likely the percentage allocated for the settlement would be coming from her own. Eventually, she would end up owning less share than some of the early people she employed.

There was a minute of silence. I could only imagine how much hard work and sleepless nights she had put into this company; the promising career she had sacrificed, and several romantic encounters she had passed up to focus on this brain baby of hers. Not to mention the tough decisions she had made along the way to make this dream finally within reach, only to witness someone blatantly seizing half of the prize, for doing nothing beyond simply being a rogue.

"Perhaps we should put the fundraising on hold, deal with the lawsuit, and re-launch the campaign in three months?" one of the meeting attendees finally broke the air.

It felt like forever before Rachel uttered her decision.

"It's both too early and too late to give up now," Rachel said, forcing a smile while calming down her emotion. "You guys better make it work."

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WHEN IT COMES TO INVESTMENT, it's not hard to find people who don't like “tech”. People who are convinced that bitcoin, NFTs, SPAC, Tesla, GameStop, and the like are all equally speculative and filled with poseurs and cowards. That all they do is to hype things up and don't do any real work. When I hear such criticism, I usually nod and acknowledge that some live up to these stereotypes. I admit that reading certain events and meeting certain people from related fields could sap even the hardiest spirit.

But I also tell people about Rachel. I describe what she and many other entrepreneurs learnt too well — that **making an impact on the world is never an overnight endeavor. The process could be boring, full of roadblocks, long nights, uncertainties, and self-doubt.**

Rachel and many others I came to know in the venture space are the reason why, even when everyone was chasing after momentum names, I could admire a well-run business, and why I felt extra cautious about overly broad claims that a certain industry is becoming obsolete and in dire need of a makeover. They taught me to **marry passion with reason — to not get overly excited when something, in investment and in life, was going well, and to not get too despondent when it wasn't.**

With warm regards,

Ryan