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for International Economics  
Council on Foreign Relations

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Moderator: Dambisa Moyo  
Co-Principal, Versaca Investments

## Introduction

President Barbara Van Allen

Good afternoon and welcome to the 681<sup>st</sup> meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here today with all of you. It's a milestone year for us – our 115<sup>th</sup> anniversary. We hope you can join us for our special anniversary dinner on November 14<sup>th</sup>. We have an exciting evening planned. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. And we've actually had more than 1,000 speakers come before the Club over the last century.

I want to give a special welcome to members of the ECNY 2022 Class of Fellows. This is a select group of diverse, rising, next-gen business thought leaders. We now have 55 in the Class of '22. Applications are now open for '23. So please take a look for that. We also have joining us virtually students from the CUNY Graduate Center, the NYU Stern School of Business, and the Gabelli School of Business at Fordham University as well as Rutgers University. As a reminder, these are all students that we welcome on a complimentary basis to our webinars every time. So anyone with suggestions of schools, please share them.

It's a pleasure for me to welcome our special guest today, as part of our Author Series,

Sebastian Mallaby. He is the Paul A. Volcker Senior Fellow for International Economics at the Council on Foreign Relations. An experienced journalist and public speaker, he contributes to a variety of publications, including *Foreign Affairs*, the *Atlantic*, the *Washington Post*, and the *Financial Times*, where he spent two years as a contributing editor. He's the author of five books. Most recently, which is the focus of the conversation today, *The Power Law: Venture Capital and the Making of the New Future*, which is a finalist for the *Financial Times* Book of the Year.

His interests cover a wide variety of domestic and international issues, including central banks, financial markets, the implications of the rise of newly emerging powers, and the intersection of economics and international relations. His previous book, *The Man Who Knew: The Life and Times of Alan Greenspan*, was the winner of the 2016 *Financial Times*/McKinsey Business Book of the Year Award and the 2017 George S. Eccles Prize in Economic Writing.

Before joining CFR, he served eight years as a columnist and editorial board member at the *Washington Post* and spent 13 years with the *Economist*. While at the *Economist*, he worked in London, where he wrote about foreign policy and international finance; in Africa, where he covered Nelson Mandela's release and the collapse of apartheid; and in Japan, where he covered the breakdown of the country's political and economic consensus.

He's a two-time Pulitzer Prize finalist: once for editorials on Darfur and once for a series on economic inequality. In 2015, he helped to found a startup, InFacts.org, web pub making the fact-based case for Britain to remain in the E.U.

The format today will be a conversation, and we're very fortunate to have Club Trustee, Dambisa Moyo, global economist, author, and co-principal of Versaca Investments, doing the honors of moderating. As a quick reminder, this conversation is on the record and we do have a fair amount of media on the line today. Dambisa, if you're ready, I'm going to turn the mike over to you.

### Conversation with Sebastian Mallaby

DAMBISA MOYO: Thank you so much, Barbara. I'm so glad that you did that introduction of the wonderful Sebastian who has been a friend for a number of years but most importantly I would argue is the most important voice and author currently on issues of finance. And as Barbara mentioned a moment ago, his extensive writings and books, award-winning books, really are a testament to that.

We are going to focus on the book, most recent book, *The Power Law*, and I'm going to dive right in it because I know we're tight on time. Sebastian, welcome, and let's just get it started. Tell me a little bit about, just for context-sake, what does the title mean, *The*

*Power Law*? There are a lot of finance people in the room today who will be familiar, but I'd love for you to just start off there.

SEBASTIAN MALLABY: Sure. Well, thank you, Dambisa, and thank you, Barbara, as well. So *The Power Law*, why the title? I did have friends who came up to me and said, you know, is this about electricity? Is it about our legal system? No, no, no. And so I was aware in choosing the title that it was risky. Some people wouldn't get it. But it actually has multiple core meanings when you talk about venture capital and startups, which led me to stick with that title choice, despite some of the skepticism.

And the core meanings are basically that when you do ten venture capital investments, you fully expect that six or seven or maybe even eight will pretty much fail. You will get nothing back or you'll get cents on the dollar because the startup that you backed just doesn't succeed. It doesn't necessarily mean that the startup was a bad idea, but, you know, a bigger rival came in and stole the market. Somebody else, you know, regulation changed or whatever happened, the tech didn't work out. It just is an extremely risky business.

And the only way that you justify backing startup companies that are more likely than not to fail is that the minority, maybe 1 in 10, 2 in 10, are going to make like 10X or more your initial investment. So that's, I mean we're not talking a 10% rise, we're talking

1,000%, 10X. And that's something which, you know, a normal public markets investor wouldn't dream of. I wrote a book about hedge funds a while back and, you know, the hedge fund people sometimes said, well, if I could double my money, make 2X on a three-year holding, that would be fabulous. These venture capital people, they're looking at 10X or more than 10X.

And so that gets you to this power law distribution of returns. It's not a case where the, sort of, you know, typical return is close to the average return is close to the expected return, the modal return. That's a bell curve distribution where the kind of average distribution is in the middle of the curve. This is a distribution where the modal distribution like the, the typical one or the median, which is the fifth out of ten, fifth and a half out of ten, is going to be pretty much a zero. But the average will be way higher because you're going to get these right-hand tail ones which are just off the charts, excellent.

And so you get this power law distribution in venture capital returns. You get some venture capital partnerships, which scoop up all of the profits in the sector. So there's a power law operating there as well. And there's a power law, by the way, also in sort of the technology. It's a nonlinear progress of the underlying tech, so you have Moore's law for how semiconductor power changes over time. You have Metcalfe's law for the way that a network, the value of the network, like the internet, rises with the square of

the number of users. So there's all these nonlinear effects in the world of startups and that's the first thing you have to understand when you're looking at how investors think in this peculiar space.

DAMBISA MOYO: So that's a brilliant start, and there are lots of strands that we're going to pick up on. We're going to talk a little bit about some of the personalities, later on about some of the personalities and unique aspects perhaps around venture capital. We will also talk about crossover because you've touched on hedge funds. It would be interesting, more recently we've seen, certainly maybe not this year, but in the years leading up to this year, we saw a lot of crossover. So traditional hedge funds really now taking a dip into venture capital. So it would be interesting to hear a little bit more about that.

But before we get to those questions, could you just, for the audience and for those who have not yet had a chance to look at the book, maybe just give us a little bit of an overarching view of how the book is structured. Because, you know, in our chats, and I've engaged with you on this conversation before, I thought it was incredibly helpful to understand, not only what you just touched on slightly there, the sort of underlying aspects of the power law that is in different sectors, so technology, etc. and Moore's law, but also more generally how the book is structured. So think about some of the questions we'll be talking about later, public policy, regionalization, and how it is we are

where we are.

SEBASTIAN MALLABY: Sure. So one of the things I wanted to do with this book was to explain how venture capitalists think, because it is a very different, sort of peculiar specialty within investment management. In most kinds of investment, you know, you start by thinking, well, what's the income stream from this asset and you could figure out a price/earnings ratio or you might look at the assets that the company owns and have a kind of book value versus the market value. So those kinds of quantitative metrics don't work with a startup because there are no earnings yet, right? It's just two people who walk into your office and pitch you a dream. And equally there's no book value because the startup doesn't own anything yet.

So thinking about how venture capitalists sort of even can begin to make these extremely tricky bets on early-stage companies, this was a fascinating intellectual mystery that I wanted to unravel. And the way I've gone about it is to tell the story, you know, historically, to go back to the origins of Silicon Valley, the first deal when semiconductors were ever backed. That was Fairchild Semiconductor in 1957. And the kind of grandfather of West Coast venture capital, a character called Arthur Rock came out from New York, met the founders of Fairchild Semiconductor and made the investment and then went on to back other storied companies like Intel and Apple.



And I tell the story from that time, the Arthur Rock period, through the foundation of Sequoia and Kleiner Perkins, two storied rivals in the 1970s, onto the 1980s when you have venture partnerships like Excel being formed. In the 1990s, you get Benchmark, another famous name coming along. The following decade you've got Andreessen Horowitz, Founders Fund, Peter Thiel's organization, and Y Combinator. And then going forward, even later, you've got the arrival of the growth investors like Tiger Global and DST, Yuri Milner's vehicle.

And so I tell it historically, and one of the advantages of that, well, I guess there's two. One is that it's fun to tell stories and there are personalities in the stories and that makes it a readable book. But also just intellectually, at the beginning of any financial specialty, it's super simple, right? The first insights are incredibly basic, like when you invest in the startup, don't use debt, use equity, because, why? You know the startup needs to reinvest all its internally-generated money in the business because it's a growth company. So debt, where you have to service the debt, makes zero sense.

But that was not obvious in the 60s and, in fact, the U.S. government was trying to support startups with debt. So just understanding that you should use equity was an insight. Understanding that you should invest stage by stage in Series A, Series B, Series C. Why? Because when you look at a very early-stage company with just a concept, it's so risky to back that if it was a binary decision between don't invest or

invest a lot of capital, you would never take the plunge of investing a lot of capital. But you could risk a little bit with a seed investment or a Series A investment. And then if that startup cancels out the white-hot risks, then you can go deeper in with extra money.

So as time goes by, these venture investors become more sophisticated. They start to specialize in particular technologies. They specialize in particular stages. Some are growth investors. Some are seed investors. They specialize in different geographic regions. And the whole thing becomes more intelligent, you know, behavioral science becomes incorporated into how you choose investments and so forth. But you can layer the explanation on over time as the story goes forward. A sector that is pretty crude at the beginning becomes more and more fascinatingly sophisticated by the end of the story.

DAMBISA MOYO: So I'm very conscious of time but I would love it if you would just picked up on one of the stories you talk about in the book just to illustrate what you just said, the sort of evolution. You talk about Mike Moritz talking to Patrick Collison, now one of the most successfully backed private companies, Stripe, and how they actually, the bonding came through a bicycle. Could you just talk a little bit about that?

SEBASTIAN MALLABY: Sure. Well, I'm glad you brought that up, Dambisa, thank you. It is one of my favorite stories, I have to admit. Because when I was beginning my

research, I would go out to the Valley and friends of mine were generous to make lots of great introductions. So early on I met Patrick Collison, the founder of Stripe, and I met Michael Moritz, who led Sequoia, the top VC company in the Valley. And Michael Moritz had invested in Patrick's company, Stripe, and I asked both of them to describe how that came about.

And they kind of told me this story, which was wonderfully cute, but not particularly illuminating. The story went that, you know, Patrick went over to see Michael at the office in Menlo Park and he rode by bicycle. He parked his bicycle outside. And at the end of the meeting they came out together from the Sequoia office and Michael Moritz spotted Patrick's bike kind of locked up to the fence on the perimeter of the lot. And Moritz sort of latched on and said, is that your bicycle? Do you really like biking? What's your time on the Old La Honda climb? Some storied bicycle climb in Silicon Valley. And when Patrick had a good time, it sort of showed he had the grit to be a founder, and this was how the investment came about. They bonded over cycling. And I'm like, now, wait a second, that is not how a serious offer is generated in investment management. There's got to be more to it than that.

And it was later on when I was much deeper into my research and I spoke to multiple other people at Sequoia, including Roelof Botha, that I understood more about the Sequoia process and the way that, you know, there's a whole behavioral science that

they incorporated where they brought in, you know, they understood that people, including investors have bias in the way they make decisions. And so, for example, they would back a certain company on one Monday at the partners' meeting but they would recognize that if they'd been in a different mood, two Mondays later they might have rejected the same company. So they injected method and consistency into the decision-making process.

And that's partly why they were able to do good bets like backing Stripe and Patrick Collison. But also crucially in the case of Stripe, they systematically had built their network so they already had a good network because they were successful over a long period. But they created something called the Scout's Program, where they gave existing founders of companies a little bit of money to play with and said you make investments and then, you know, all we're asking for in return, that you make bets with this money and you can keep some of the upside, all we want in return is that you give us a call when you find something you're impressed by.

And Patrick Collison had been on the radar of two people who were tied into the Sequoia network. Those two people had both separately called people at Sequoia. So by the time that that meeting took place and the bonding over the bicycle took place, there had been two kind of red-hot references from these scouts to Sequoia and that's really why the investment happened.

DAMBISA MOYO: Yes, you know, the Scout's Program from Sequoia has been phenomenally successful as you point out. And actually I love the idea of that sort of innovation, that actually people you've invested in, people that you know become your ambassadors, and they're the ones who actually provide this additional network.

I'd love to spend the next couple of minutes talking about regionalization. So you went straight to Arthur Rock. You talked about Fairchild and semiconductors and the U.S. government really leaning in to support the development of Silicon Valley. I'd love to just throw out three other regions and would love for you to just tap into offering a perspective on why that hasn't been replicated, or maybe it has been replicated.

One is obviously China versus the United States. Number two, and you can answer them in whatever order you like, we'd just love to get a perspective of how that is looking. Number two would be Europe. What's happened in Europe? Some people would argue it's a fast follower. I'd love to just get a perspective in terms of what's happening there. And then finally, East Coast versus West Coast – Boston versus Silicon Valley. Those in particular but also now we're hearing much more about, in crypto, sort of noise coming from Florida. We're hearing more about Austin. Talk to us a little bit about regionalization and why certain regions have been hot and others not.

SEBASTIAN MALLABY: Well, there's a lot in that. I'd love to kind of, you know, to tease

this out. So let's start with the East Coast versus the West Coast. When I first went to Silicon Valley and I told people I was going to write a book about venture capital and the rise of Silicon Valley, they would say to me, well, you know, alright, but I mean really Silicon Valley is Stanford Valley. And if you understand why it did so well, it's because of Stanford and the great science coming out of Stanford. Or they might say to me, it's really about defense contracts. You know, the military spends so much money on tech on the West Coast, that that explains the rise, or they might have some other theory.

And the more I looked at it, the more I thought that really actually the venture capital was the differentiating factor. And the reason I came to that view is that actually the beginning of my story, in the 60s and 70s, MIT was a much stronger science and engineering university than Stanford was. And, in fact, military spending, military contracts did exist in California for sure, but they were more of them around Boston. The military industrial complex was really headquartered around MIT with Raytheon and Lincoln Labs and so forth. And so that couldn't explain why the West Coast beat the East Coast.

What did explain it was that the nature of the risk capital, the venture capital in Silicon Valley was just much more aggressive. You know you had these investors who were willing to back somebody with a product idea and some engineering skills but nothing else. And if they lacked a business partner to go off and sell the product that they were

making, no problem, the venture capitalists on the West Coast would go off and find somebody from their network who had been to a business school and could be the business partner.

Whereas on the East Coast, there was some venture capital but it was much more timid. There was no willingness to back a team until it already had that business partner, probably already a product that worked, maybe even some customers. In fact, the West Coast people would laugh at the East Coast and say it was a theory of immaculate conception that, you know, the company kind of had to arrive in the venture capital office with already all the pieces it needed to succeed. Whereas on the West Coast, they were happy to kind of help to build it and roll up their sleeves.

And I came to the view that that created a business climate on the West Coast that really explained why Silicon Valley took off. Now, fast forward from the 70s to around 2005, and now I'm going to bring in China, another part of your question. Because what happened then was there had been a bit of a lull in Silicon Valley, the internet bubble had burst. There was a fallow period in like 2001, 2002, 2003.

And then the Silicon Valley VC shops moved into China. And what was interesting about this, when I went to research it is that there had been other books written about how the state had been very important in guiding Chinese tech. And if you want to

understand the rise of the Chinese tech sector as a rival to Silicon Valley, you had to look at the government and state policy, state capitalism. And I kind of thought, well, that makes sense. Sure. Capitalism in China is different, of course the state is a big player.

But when I went to speak specifically to people about the origin of Alibaba, the origin of Baidu, or Tencent or Sina or Sohu or NetEase, all of these cases had American-style venture capital in the origin, in the origin story, in the creation of the company. And so if you looked at Alibaba, it was a woman based at Goldman Sachs, Shirley Lin, who was the first money in along with a company called InvesTech with an investor called Joe Tsai, who later himself joined Alibaba. And they were the ones who really enabled Alibaba to become a success. They provided both the capital and importantly the kind of, the board structuring, which had a company, a parent in the Cayman Islands that allowed you to give stock options to employees.

In China, stock options were not a thing in the late 90s when Alibaba got started. It was only possible to give stock options because of this Cayman Island structure, which the American VCs brought in. And once you had that structure, you could hire world-class talent, including people from Silicon Valley to help you to build a world-class company.

So, to answer your questions, I mean when I looked at these regional comparisons, I



became more and more convinced that the Silicon Valley playbook of this risk-taking, forward-leaning, roll your sleeves up kind of risk capital, that was the key to having an entrepreneurial ecosystem that really generated tons of startups with tons of talent. Now with that going out process to China in 2005, the venture capital leaders in California realized that they could take that playbook elsewhere. They made tons of money in China with a bunch of very successful investments, and they started to go to India. They went to other places within the U.S. New York became a bigger ecosystem. Boston started to come back. And basically the secret sauce of venture capital in Silicon Valley was bottled and exported.

And that's why today it's going everywhere. That's why I'm super excited about innovation spreading everywhere. Because you see in Miami, you see Austin, Texas, there's a bit going on in Denver as well as New York and, of course, Boston. And then in Europe, which has always been a laggard in terms of entrepreneurship and startups is really taking off now. Spotify is the big role model, but it's been followed by tons of other startups which are coming behind. And I'm super optimistic precisely because it is spreading everywhere.

DAMBISA MOYO: That's absolutely right. And, of course, we know that good companies like Sequoia have opened offices in London. You've got the Klarnas. And so there is definitely an opportunity to, at least something to watch. We'll come back in a

little bit to what public policy can do but I'd love to just push a little bit more. Are there any learnings that you stumbled on for other sectors? Because the innovation and restructuring, it sounds like a lot of flexibility. I hate to use the word agile because it seems overused, but this sort of, the ability to figure out talent and capital. What are some of the learnings for other sectors, some of the older, stodgy, industrials or finance or indeed existing consumer goods, etc.? Is there anything that you learned that you think would be useful in terms of innovation in particular?

SEBASTIAN MALLABY: Yes, I think there's one clear lesson and one debate. The clear lesson is that change can be nonlinear. You know, you can have companies that you hadn't heard of and then all of a sudden, you know, they just grow incredibly fast in this power law take-off fashion. And they can become challengers to your business much faster than you expect it. So I think the incumbent companies have to be super-vigilant about potential challenges coming out of the startup sector.

And that's why I think some bigger companies, the incumbents are correct to do strategic venture investing arms, not necessarily because they're going to be making a ton of money from the investments, but because it gives them a seat at the table in the sort of startup clusters so they have a better sense of what's going on and what's coming down the pike that might disrupt them. And I know plenty of big, you know, industrial groups that are doing that.

I think the more debatable thing, which is a really interesting debate, is that, you know, a long time ago, the Harvard Business School professor Clayton Christensen, laid out this idea of the innovator's dilemma, which basically said big companies are really never going to be able to do disruptive innovation because they're going to be disrupting themselves. You know, the incumbent is always going to have a stake in the status quo because they're doing well. And so putting kind of real energy and money and belief into something that's going to change the status quo is just about impossible.

And there are all these examples like Xerox, you know, famously had all the ingredients of a successful personal computer business in the late 70s, but it never really used the fact that it invented the mouse, invented the graphical user interface. Instead it allowed Steve Jobs onto his premises and Steve Jobs saw all this stuff and went and copied it at Apple. Because basically Xerox was a photocopy company and didn't want to cannibalize its core business by encouraging a paperless office with a personal computer. And there's tons of examples like that.

So the question is can an incumbent company escape the innovator's dilemma? And I think it's an open question. You know, Google tried to do this by encouraging its engineers to spend one day a week, 20% of their time, on some random and ambitious project. And people make fun of that because a lot of those things failed. On the other hand, one of the things that came out of that, Google-X, moonshot culture, was a lot of

artificial intelligence and they are putting that to very good use in terms of predictive text and so forth.

You know, another example would be Meta, which is maybe so far less happy of an example. But, you know, because Mark Zuckerberg comes out of a startup culture, he himself started the company and he remembers what it was like to be a challenger and to move fast and break things, he's willing to take a large company that he's running and risk breaking it by essentially pivoting radically and putting all his energy into this thing, the Metaverse, even before it's being built and who knows if it will ever be commercially profitable. So that's an open story. It hasn't played out yet, but I think that's the most radical example of an incumbent trying to break out of the innovator's dilemma.

DAMBISA MOYO: Yes, I mean, look, as someone who sits on a number of corporate boards, I mean this is the issue. We see massive macro trends, whether it's climate or rivaling traditional energy businesses or thinking about new platforms of finance and how those are challenging traditional broker-dealers. I think all of this is something to watch, but absolutely challenging from a cannibalization point. I mean nobody wants to kill off the goose that's laying the golden egg. But at the same time, very necessary, and I think more and more the market is pricing and valuing those innovations without really sometimes, you know, having a developed program of success within these existing

businesses.

I'd love to actually pay sort of some respect to the mood music and where we are today and talk a little bit about valuations. I mean you've seen real carnage, sort of resetting, re-rating of valuations. You talked about 10X. You talked about some of the aspects of the power law. Could you just talk to us a little bit about, and maybe take a step back and talk to us a little bit about where you think we are vis-a-vis the broader sort of aspect about the history of VC bubbles. You touched on 2001 to 2003, but I think a lot of people on the call would be interested, you know, since we've seen a lot of re-rating from Stripe to Klarna, etc. How should we interpret this in the broader scheme of VC land?

SEBASTIAN MALLABY: You know, I think technology is always doomed to generate bubbles. I went back and read a book about this because I was interested in the question you're asking. And, you know, one of the things you learn is that there was a bubble in railway stocks in 1850 and it didn't mean that railways were not a real thing. There was a bubble in bicycle stocks in the 1890s. It didn't mean that bicycles were not a real thing. And there was a bubble, of course, in the internet in the 1990s. It didn't mean the internet was not a real thing.

But what you do get is you get euphoria around these new technologies which

overshoots, and that's usually expressed in public markets initially. But then that feeds through inevitably into private market valuations because private markets fundamentally don't have a sort of bubble control mechanism. You know, in public markets investors can go short. And they can, you know, if they think their stock is overvalued, they can short it. And so there is some ability to control their over-valuations.

But if that fails and there is an over-valuation in the public market, you can guarantee that the private market is not going to correct it. Why? Because just go to, you know, go to Silicon Valley, go to Sand Hill Road, where all the venture capital partnerships are clustered, if you wanted to invent a machine for inflating bubbles, it would say let's put all the investors on the same road. Let's give them like one good restaurant to share between all of them so they bump into each other every single day. Let's have a system where you cannot go short because there's no mechanism for that. Let's have a system where you syndicate into each other's deals, Series A, Series B, Series C so you have to be polite about each other because if you're rude, you're going to be ex-communicated. You won't be invited into the next deal. This is a machine for manufacturing bubbles.

So, as I say, there is no mechanism in the private markets for resisting that. The only mechanism is if public valuations correct. And that's precisely what we've seen. They started to correct last November. We're now one year into the correction pretty much.

And naturally, private market valuations have come down as well. I think it's a healthy thing. And I think that with luck, it won't derail the activity in startup formation because everybody knows that actually in a downturn suddenly it's easier to hire engineers. You know, real estate is less overvalued. You can build in this environment so early-stage capital ought to be continuing to flow into startups and I believe it will because enough allocators understand that.

I think where, you know, sort of more lasting correction would be salutary is in the growth stage where you've already got a unicorn \$1 billion-plus valuation and you've been backed by these growth investors that didn't exist 12 years ago. Basically it was sort of a post-'08 phenomenon that growth investing really took off. And my view, and I described this in my book, I'm basically very in favor of venture investing. But I do think that growth investors, you know, the soft banks, vision funds, the Tiger Global, the DSTs, the crossover funds in general, they came in, they wrote big checks and they were not interested in exercising oversight over founders. They would say I don't need to be on your board. They would say you can have super voting shares as a founder. I think that just gives too much authority to the founder. It puts them on a pedestal. They have no oversight, no checks and balances and that's a really bad thing.

We know that the people who found startups are not necessarily the right people to be the stewards of big companies, and you need a switch. And right now at Facebook, it's

just a bad thing that Mark Zuckerberg had super voting shares and you can't dislodge him. It would be much healthier if he lived a bit, you know, in paranoia, and knew that his board could kick him out if it was necessary, if it was the right thing for the company. And so, you know, I think that part of the ecosystem with this revaluation of tech companies in general, I hope that learns a lesson and that the culture changes.

DAMBISA MOYO: So you actually hit on my next question, which was about these crossover funds, because clearly you rightly pointed out, 2008, we've had an era of cheap money. We've had an environment where China was, in large sense, shorthand, it was sort of on side. There are a lot of structural things, we had no inflation, a lot of structural things sort of the geopolitical side but economic side as well that are changing.

So just maybe summarize first, are you fundamentally bullish on venture capital? Do you say to yourself, okay, you know, some of the funds that you talked about, Coatue, the Tigers, etc., they sort of came in on the crossover cheap money period. Now that they might be squeezed out or they go back to their traditional habitat, do you then think to yourself, we're going to get sort of a reset, some of the governance stuff that you just alluded to? Or do you think that, you know, venture capital is sort of doomed. I doubt that you think that. But how should we be calibrating what happens next in terms of the mood music and given the macro trends?



SEBASTIAN MALLABY: I think I'd divide my answer into two. On the early-stage stuff, as I've said, I'm really optimistic because I think it is spreading globally and I think that's just a fantastic thing. Because there's this weird anomaly that between let's say 1970 and like 2005 or so, this special magical formula for doing power law investing was only understood in one region of the world and that's why that region totally dominated startups and innovation for a long period.

But it's much healthier for the world if development is more balanced. And I think the fact that Sequoia, the top venture partnership in Silicon Valley, now is operating in China, in India, in Southeast Asia, in Europe. That's a great thing. We want the model to be exported. And I think that's telling us that there's going to be this permanent shift in venture investing and startup formation. And this correction in tech valuations is just a blip on the radar. It doesn't really matter. There's a secular force, a secular trend which is way more powerful.

On the growth side, where I do think that, you know, revaluation was needed and I hope that a rethinking of the amount of, sort of autonomy given to founders is rethought. I fear that what's going to happen is that there'll be a sort of hiatus in which there's bad performance and there'll be some funds that are really under water, but basically the world, in a year or two, will go back to normal, i.e. way too loose money.

And the reason I think that is that, you know, if you look at Tiger Global, for example, they started doing this in the mid-2000s or early 2000s abroad. They brought the model back to the U.S. in 2009 when Yuri Milner, one of their proteges, kind of did it, beat them to the post by doing it in the U.S. with a famous round in Facebook. And then, you know, Andreessen Horowitz got started in 2009 and they also did growth investing in their first fund. And this model just took off. And the people who did it for the next ten or so years just minted money. Because you could write enormous checks into these bigger tech companies and the multiples wouldn't quite be like early stage, but they would still be very high, so this sweet spot between big check size, fairly big multiples, enormous dollar returns.

And in a way it was like taking the growth stage of what had been the kind of go-go Nasdaq-y public stocks from the 1990s and just privatizing that. Just taking it off the public markets altogether, not letting retail traders get a look-in, but just hogging it in the private investment partnerships. And although that has lost money this year big time, it made so much money for like a decade that I think the model would just bounce back. And I'm not happy about that because I think it leads to these blowups, WeWork, Uber, famous, sort of high-profile unicorns that go off the rails. That, in turn, discredits the tech sector at large, which is not healthy for anybody. And if you want capitalism to be kind of credible, you don't want these crazy blowups with unethical founders and so forth. So I'm a bit worried that will just go back to where it was.

DAMBISA MOYO: So I'm conscious of time. I'd just love to give the counter, maybe ask you to give the counter-view. You've talked a little bit about what venture capital firms look for and how they have evolved over time. Talk to us, if you were a startup what attributes do you think you should be looking for in a VC? You touched on the fact that a lot of crossover funds are writing these checks, very loose governance requirements and, you know actually perhaps no sort of operational expertise. Is that something that you think is an, clearly it's been an appealing and attractive proposition to startups? What other things should venture capital aspirants, sort of startups, be thinking about when they look at venture capital companies?

SEBASTIAN MALLABY: I would say that startups should avoid what I call the Uber Series B error. And what I mean is that, you know, Uber started off at the beginning with good seed investors, an excellent Series A investor in the form of Benchmark. Bill Gurley was the person there. He's really a terrific and very thoughtful investor. And everything was going great. They would build this new business model. It was expanding really fast. Consumers loved it. It was terrific.

And then there came a moment when, you know, Travis Kalanick, the founder, was on top of the world, and he could kind of play rival Series B investors off against each other and sort of, you know, have his pick. And he had a pick and he chose, instead of taking a really knowledgeable Series B investor from Andreessen Horowitz, who had done

other marketplace businesses like Open Table and really knew enough to add value on the board to what Uber was doing and the choices that it made, he picked somebody who was basically just going to be a friend, who was never going to challenge him, who was going to throw great parties for him. You know, introduced him to his girlfriend at one point. You know, would have cars pick him up at airports with a fresh change of clothes in the back, that kind of stuff, who literally kind of had the Uber logo shaved onto the side of his head. I mean it was a groupie choice, not a board member choice. And that's a big mistake.

And as a company builder, as a founder, what you want is to recruit as much talent, as much challenging talent as you can to your coalition. You want talent on your board. You want talent amongst your employees. And if you dilute the talent by having kind of a B player for your Series B round, that's going to mess you up.

DAMBISA MOYO: It will be interesting to see whether he's learned that lesson for Cloud Kitchen, but that's another conversation. Look, we're running out of time. We didn't get a chance to talk a lot about the personalities, but I know there's a lot in the book. I'd like to just really take the opportunity that we have with you here to pick your brain on something else that you've been in the press recently talking about, the new -prime minister in the U.K. This is the third prime minister they've had, I think, in a matter of weeks, seven weeks or so. Talk to us a little bit about the broader economic prospects

for the U.K. I mean actually the current Prime Minister, Rishi Sunak, was at Stanford, so I imagine he might have gotten some of the sort of kernels of wisdom around innovation. But we'd love to just hear any thoughts you have. How are you feeling? Are you leaning in and thinking that this is a great reset for Britain? Or are you still worried about the infighting in the Tory Party? How should we be calibrating what's going on there?

SEBASTIAN MALLABY: I mean, Dambisa, the problem is as you say, this is the third prime minister in seven weeks. And so, you know, after three years of Boris Johnson, which was sort of charming but chaotic and dishonest, and then sort of kamikaze, you know, 45 days' worth of Liz Truss, who, as I read today somewhere, it was not only probably the worst prime minister-ship in the history of Britain, but certainly, certainly like the most damage done per day, I mean by a longshot.

So we set the bar so low for our British leaders that when you have Rishi Sunak and he comes in and he's competent, he's intelligent, he's been to Stanford, as you say, he understands financial markets, there's a temptation to say Hallelujah, this is terrific. But hopefully the bar should be higher than just outperforming his immediate predecessors and he does, on November 17<sup>th</sup>, have to produce an austerity budget that convinces the markets that he's got things under control. It is not going to be easy so we're going to have to watch this one very carefully.

DAMBISA MOYO: That's fantastic. Well, look, I just got my cue. The lovely Barbara has just magically appeared on the screen. Sebastian, thank you so much. You know, we could talk for another hour. There's so many interesting things as I said. Lots about personalities, lots about what governments can do, should do in leaning in to develop these types of sectors. Please read the book. It is fantastic and I wish you all the best of luck. You deserve to be short-listed at least, for the FT prize. But, Barbara, over to you.

PRESIDENT BARBARA VAN ALLEN: Thank you both. Sebastian, just wonderful insights, and Dambisa, your questions were just really perfect. And thank you both for giving us some of your valuable time today.

I want to mention over the next few weeks we have a number of very notable guests, also starting with a luncheon. We have Jake Sullivan, the Assistant to the President for National Security, on the 7<sup>th</sup>. That luncheon will be followed by one two days later on the 9<sup>th</sup> of November with General Mark Milley, the Chair of the Joint Chiefs. So please mark your calendar for those. We follow on the 10<sup>th</sup> with a webinar with James Runcie, the CEO of the Partnership for Education, as part of our DEI Series. We also have Steve Squeri, the President and CEO of American Express, joining us for a luncheon. That will be at the New York Stock Exchange on November 10<sup>th</sup>. And as a reminder, members are able to bring a guest to the luncheon and that guest would be on a complimentary basis. So we hope folks will take advantage of that. I already mentioned we have our

115<sup>th</sup> anniversary celebration dinner coming up, November 14<sup>th</sup>, where we'll have a panel of former Chairs, who will be interviewed by John Williams, our Chair. Later in November, we're lucky enough to have Arvind Krishna, the CEO of IBM, joining us for a Signature Luncheon. That would be November 17<sup>th</sup>. And then John Williams, who is, of course, President of the New York Fed as well as Chairman of The Economic Club of New York, will join us for a webinar to talk about monetary policy now and into the future, November 28<sup>th</sup>. Mike Wirth of Chevron will join us December 1<sup>st</sup> for a luncheon and then we'll follow that up with a webinar on the 7<sup>th</sup> with the former CEO of StubHub, Sukhinder Singh Cassidy. And then that same day, we have a luncheon with the Secretary of HUD, Marcia Fudge. So December 7<sup>th</sup>, a busy day, mark your calendar. We also then always wrap up the year with a year-end event. This year it will be a dinner and we'll be hosting Senator Joe Manchin of West Virginia. And that will be December 8<sup>th</sup> and it's already proving to be a popular event. So, as always, please look at our website. You'll see our events are always listed there. Be sure to check for any new events in the coming weeks. We are already starting to fill our calendar for 2023, so do stay tuned.

And as always, we want to thank our members joining us today from the Centennial Society as their contributions continue to provide the financial backbone of support for our Club. Now is a great time to review being a Centennial member if you're not already, or if you are, upping your Centennial level prior to our special anniversary

dinner where this special group will be recognized. Thank you again to everyone for joining us. And Sebastian, Dambisa, thank you again for just a wonderful conversation. Everyone please enjoy the rest of your day. Thank you.