

Matthew Le Merle

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:24] Well hello, this is Hall Martin with Investor Connect. Today I'm here with Matthew Le Merle, Managing Partner of Fifth Era and Blockchain Coinvestors. Matthew and his partner Alison Davis have just authored "The Intelligent Investor: Silicon Valley". Matthew, thank you for joining us.

Matthew Le Merle: [00:00:38] It's great to be here, Hall, and I very much appreciate you taking one of your episodes for us to talk.

Hall T Martin: [00:00:44] Great. So, tell us more about your background?

Matthew Le Merle: [00:00:47] So, Alison and I, we're a husband and wife team, we came to America 35 years ago. At the time, we were consultants with McKinsey and Company, they sent us to business school and we never went home. And, the last 35 years it's almost all been in Silicon Valley, for senior partners, large consulting firms. Then Alison went off to be CFO of Barclays Global Investors, which is now BlackRock, the world's largest asset management company. And, I ran the West Coast for various consulting firms, Kearney, Monitor, Booz, and about 20 years ago, we were fortunate that California had been good to us and we had the resources to open our own family office, which is Fifth Era, and out of that we've been internet, fintech, and blockchain investors ever since, or at least blockchain investors is the story of the last six or seven years. But that's basically it Hall. It's all about for us, early-stage technology, Silicon Valley, internet, fintech, blockchain, and building out a digital world.

Hall T Martin: [00:01:52] So, what is your investment thesis that fits there in Blockchain Coinvestors?

Matthew Le Merle: [00:01:57] Oh, cool. Great question, thanks for asking it. Well, Fifth Era is part of our investment thesis. We believe - and we've written about this - but we

believe that the world is transitioning to a completely new digital economy globally, fueled by the internet, of course, but complemented by digital monies and digital assets and that new world is very different from the industrial era of the last 200 years. And we're transitioning through to that time. It isn't coincidental that the world's most valuable companies and the fastest-growing companies are digitally-enabled companies, and the value creation or wealth creation of this time is extraordinary. And so, our investment thesis begins with that. Now, we're not life-sciences investors, that's the other big theme of our times. So, we give a nod, life sciences is moving forward and accomplishing amazing things, too, but for us, it's the digital economy. And then underneath that, because we're fintech investors, it's about building the infrastructure for digital money and assets and blockchain plays an important role in that, and I'm sure we'll talk about that on this podcast.

Hall T Martin: [00:03:15] So why do you focus on early-stage investing? There are many other things out there. Why early stage?

Matthew Le Merle: [00:03:20] So, if you dig around in the numbers - and our first book we talked a lot about this - but what you'll find is over the long haul, like 25-year returns, on an annualized basis, fixed income will get you 3% or 4%, public equities, probably 10% or 11% per year, venture capital in America will average about 25% net, but early-stage venture capital will be much higher than that. It's actually probably the highest-performing asset category in the world. Yes, it's more risky, but the return is much, much higher. And unfortunately, most investors in America are encouraged to put almost all of their resources into fixed income, public equities, and large-cap real estate, which is sort of ironic, but that's what the big asset managers, wealth managers, private banks, and so on, that's what they have to give you, that's what they have on their platforms. For us here in Silicon Valley, early-stage tech is probably the highest-performing asset category in the world and that's what we want access to, that's where we invest our capital.

Hall T Martin: [00:04:32] So what inspired you to write the book?

Matthew Le Merle: [00:04:34] So the new book is a bit of the continuation of a journey, Hall. Our first book written, I don't know, five or six years ago, was about the realities of early-stage tech investing, and we just wanted to share what we'd learned, that's "Build

Your Fortune in the Fifth Era". We wrote a book on innovation and another book on blockchain. And then Alison and I were sitting down and we learned a lot from Benjamin Graham and "The Intelligent Investor", back when we first came to America. It's a great book, 600 pages, written in 1949. It's still probably the best-selling investment book in America. But you know what? It only has one page on technology investing, and that's at the end of Appendix 7. And back in 1949, Benjamin Graham writes, "Apart from IBM, most technology stocks are not really investable". Well in 1949, that might have been true, but here we are seven years later and the world's most valuable companies and the highest-returning opportunities are all in technology and innovation. And we felt that we needed to find a way to complement "The Intelligent Investor", by creating a book that sort of really focuses on early-stage tech. And then we sat down and said, "Should we write this book?" And we said, "No. Look, a better idea is to get 50 or more of Silicon Valley's best angels, best VCs, best incubator and accelerator folks, and we'll ask them the same questions that they would have to answer if they wrote their own book. But instead of giving them 50,000 words each, we'll give them three pages each and we'll just cram all that wisdom, all that knowledge into one book", and that's what the new book is. Basically, it's a fire hydrant of perspective from Silicon Valley's best, or amongst Silicon Valley's best angels and VCs.

Hall T Martin: [00:06:39] What can you tell us about those 50 Silicon Valley investors who contributed to the book?

Matthew Le Merle: [00:06:44] So, they are people we know, I mean, we've been here 35 years. We have some of the top angels from Band of Angels and Keiretsu Forum, Anthill Angels, Berkeley Angels, and so on. We have some of the VC general partners from Greylock and Draper, Tim Draper's in the book. We have some of the world's most renowned early-stage tech investors, Greg Kid, who was first money in Twitter, and Square, and Ripl, and Link2, and a host of others. So, these people have, probably each of them has 10 or 20 years or more of tech investing under their belts, they're mostly very, very successful, a few of them are service providers, so they're not all investors. But, of the 55, I think maybe 45 of them are actually investors. It's about one-third female, two-thirds male, so, we've got a lot of female representation. We'd like there to be a lot more female, early-stage tech investors than there are, especially since women control more assets in America than men, but they're very underrepresented in early-stage tech. And then about 25% of the people in the book would acknowledge

themselves as being diverse in terms of their ethnicity. So, it's really a very diverse group of people, a lot of different voices, they agree on a lot of things, but they don't agree on everything, and it's very empirical. You've got to dip in, read about what these different people think, and then take your own conclusions from it.

Hall T Martin: [00:08:23] So, who's the primary audience for the book?

Matthew Le Merle: [00:08:26] Yes. Two audiences. The first is people who are thinking about being early-stage tech investors. Remember, Alison was the CFO and Head of Strategy for the world's largest asset manager with \$7 trillion under management. Even today, BlackRock doesn't have a lot of early-stage opportunities to provide its investors, and neither does any other bank in the world or asset manager in the world. So, we feel that most people in America, most family offices, most high-net-worth individuals, they're overrepresented in the past, and they're under-allocated to the future. And, we want to give them the facts and let them make their own judgments and their own calls. So, the first audience is them. The second audience is for all the tech entrepreneurs. Everything that you and I cover, and think about, and invest in, is being built on the shoulders of a small number of exceptionally gifted entrepreneurs. And, if anyone out there wants to be a tech entrepreneur, certainly if you want to pitch and give the investors that are in the book, it's a very quick way to get behind the scenes to understand the motivations and incentives and the way the angels and VCs are thinking, and so, we wrote it with them in mind as well.

Hall T Martin: [00:09:46] And so, how are readers benefiting from reading the book? What will they get from it?

Matthew Le Merle: [00:09:51] Well, I think, let me put it this way. I know you're in Austin, I bet you've got a beautiful house down by the lake or the river, and you've probably got a nice veranda and in the summer it can be really hot. And when you're sitting out there with your mint julep, you know, and you're thinking, "I wish someone would come and teach me a little bit about early-stage tech investing as practiced in Silicon Valley", well, whoever that person is that you would choose, I think they might be in this book. And furthermore, there's another 54 of them. So, imagine that. You can have 55 people come to your veranda and all tell you their wisdom. And in fact, what we did was we asked them all the same 20 questions: Why do you do this? Why do you

enjoy it? What have you learned? What are some good decisions you made? What are some bad decisions? What do you think are the characteristics of a great early-stage investor? What do you think are the characteristics of a great entrepreneur? What advice would you give entrepreneurs? So, we ask these types of questions and you've got 55 answers to each question and there's a lot of overlap and consensus, but there's also some differences of opinion. And, if there's one thing we've learned after 35 years in Silicon Valley it's that not only is there more than one way to skin a cat, but - and sorry if that's an analogy that people don't like - but not only is there one way to skin a cat, but there's a lot of different ways to ride your bull. And I know you're a Cowboy fan, well let me just say, these guys are all very good bull riders and this is a tough space, you get thrown around a lot, but at the end of it, the returns are the highest in the world and we go along for that ride because we know the payoff is so enormous at the end.

Hall T Martin: [00:11:41] Well, so what was the most important takeaway you found in all of those interviews?

Matthew Le Merle: [00:11:45] I'll tell you, it's something that is a bit of a cliché, but there's a lot of substance underneath it in the book. VCs will tell you, they back the team as much as they back the idea, and that's different. So, in "The Intelligent Investor" by Benjamin Graham, most of those 600 pages are about quantitative analysis that you can use on public stocks. So, discounted cash flow, terminal values, intrinsic value, trying to figure out who are the value stocks and who are not, and so on; that's what he is focused on. Well, none of that works in early-stage tech because there are very few numbers and the numbers are changing all the time. But my big takeaway was the substance behind the human dimension in early-stage tech. And the people in this, [00:12:40] [00:12:41] these 55 contributors, they peel it back down and down and down to some really simple but powerful thoughts. I've been doing this myself in early-stage tech investing for more than 25 years. But I learned so much going through the exercise of compiling the book and these 55 people, they've already taught me a lot and I'm reflecting a lot upon what they've said and I'm sure I'll do a few things differently going forward as well.

Hall T Martin: [00:13:11] So, how did the book change the way you think about early-stage technology investing, or did it change your thinking?

Matthew Le Merle: [00:13:17] I think it reinforced in my mind that we're in the right place at the right time and we're doing the right things. Sorry to use all of these analogies, but if you don't fish in the right pond, you're not going to catch a big fish. And, if you put all your money into fixed income, I'll tell you what you're going to get, 3% - 4% if you're lucky - and after cost of living adjustments and after tax, probably, you're losing value every day. Now, if you leave your money in cash, it's even a more dramatically-declining asset. So, early-stage tech investing is probably the highest-returning asset category in the world, and if you go and you fish in a disciplined, highly-diversified way, you throw out a lot of hooks, and you have a lot of companies and a lot of entrepreneurs that you're backing, you've got a good chance of getting that return. There's a lot of other things you need to do, so you can't be a fly-by investor in early-stage tech. You've got to know the right people, you've got to spend your time understanding the sectors that you're going to focus on, you've got to get the best deal flow, you've got to be able to do really good due diligence. I know that your podcasts cover a lot of these topics, Hall, in the past. I've seen some of the other podcasts you've done and I know there's a lot of great content there for people thinking about being investors. But at the end of the day, the book reinforces my view that I'm spending my time wisely. And for people like you and I, we don't have to do this. I mean, we've had good careers, we've got to this point in them, we could just check out and relax and enjoy the fruits of our very long and hard careers. But, if you choose to do this type of a thing, you're a bit a mentor, a bit a coach, you'll learn every day, these entrepreneurs and their companies teach you about the future. And, I think one of the contributors in the book, Victoria Pettibone of Astia, says it very well, "Early-stage investing is investing in the future that you want to live in?". And I think that's really important. You get the chance to shape the future with your capital and with your human effort, and for some people that is incredibly rewarding.

Hall T Martin: [00:15:42] Well, so how have you integrated these insights into your investing at Fifth Era?

Matthew Le Merle: [00:15:46] So, Fifth Era we, well, so Blockchain Coinvestors is the principal investment vehicle for us today. We do do our direct investing in internet and fintech companies, but a lot more of what I do is Blockchain Coinvestors. And, the story there is about seven years ago we saw the internet and fintech beginning to merge, Alison, who's on the board of Silicon Valley Bank and Fiserv, and before that just rolled

off Royal Bank of Scotland's board after 10 years there, that they were asked by the Bank of England to have a point of view on Bitcoin, and this is about 2013. So, she had her own journey, she learned a lot, and by the end of it, she agreed to be chairman of the advisory board for Blockchain Capital, based in San Francisco. It's probably one of the, well, probably, well, it's certainly one of the top three blockchain VCs in the world, maybe the best. And so, we became LPs in all of their funds, Bart, Brad, and Spencer and we love what they do. And then Alston and I sat back and sort of said, "Look, the world's a big place and we believe in diversification, we believe in investing with the best investors, we believe in early-stage rather than late stage. How are we going to make sure that we have the largest possible diversified portfolio of the emerging unicorns of this space?". And the problem was, and the answer was, VLPs and the best VCs globally who are focused on fintech and blockchain. The problem is, we didn't have enough capital to be in all of their funds. So, the good news was we were already in some of the best, but we weren't in enough. And so, we ended up creating a vehicle, a fund of funds - I can't talk a lot about it on an open webinar like this, podcast like this - but suffice to say, it's called Blockchain Coinvestors. Anyone can find out more about us and we can share more information to accredited investors. But basically, the strategies, we pooled the money of ourselves and a bunch of other family offices here in California, and also in London, and Zurich, and Hong Kong, and Sydney, and today, we're investors in the top 20 blockchain VCs globally, Asia, North America, and Europe, and through them, we're investors in 10 of the 16 blockchain unicorns, and another 200 or so blockchain companies and projects. And, so that's a lot of my time and energy and I think the book reinforces the sensibility of that type of a diversified investment approach. It's not easy, and as I said it takes some capital to play the game, but the good news is there are other investors out there who like what we're doing, and so we have enough capital to do this. And we are, as far as I'm aware, we're the only U.S. blockchain fund of funds, so a venture fund of funds, so it's sort of a unique thing.

Hall T Martin: [00:18:42] Well, great. So, based on this experience of writing this book, what would you consider writing next?

Matthew Le Merle: [00:18:49] Well, so Hall, this is, so, my personal story is from the age of eight, I was a pretty active sportsman myself. I was a very good rugby player growing up in England, played a very high level, it would be like the East-West Bowl game, I sort of played at that type of a level. And then I was also a rower, and I have

medals from the World Championships in Rowing, and that was something I did every day. And so every day, every week, from the age of eight until past 50, I was competing and racing and it was two and three hours a day. But then I got injured and that took out the competitive opportunity for me as a rower and as a sportsman. Well, I needed something else to put my energies into, and very early on as a child, I'd always wanted to write books, but I never got around to it, and looking back, I sort of said that's something I've never done and I want to do more of it. And now I have some excess energy, if you will because I'm not tired at nine in the morning after a hard workout every day, so, what am I going to do? And so I played around with writing our first book with Alison, and I found I really love doing it. And so, we've written books on investing, innovation, blockchain, and then the book you and I were just chatting about. But my other hobbies, I've also started writing the novels of my youth that I never did. So I wrote a sci-fi novel, "Second Chance", I wrote a book which is recently published called "The Ministry of Bitcoin". It's about the first 10 years of this century and it connects together al-Qaida, and September the 11th, with Anonymous, and WikiLeaks, and the Freedom and Patriot Act, and bitcoin, and the launch of bitcoin. And I won't say any more, but suffice to say it's a novel, it's not real, but I give some answers to some of the biggest questions in that space, like who's Satoshi Nakamoto, the inventor of blockchain. It's just a novel, it's just for fun. So, going back to your question, what would I write next? I actually don't know. I think that Alison and I find this a rewarding hobby, it gives us the chance to share some of the things we've learned, but I am very taken with this model of given our place in the ecosystem, getting the very best people to tell their stories in a compilation book. So, I might invite 50 of Silicon Valley's leading entrepreneurs to put their thoughts together, advice for entrepreneurs. Alison and I are also thinking about maybe doing something with female board directors. _____ is one of the leading, public company, female board directors in America. So, we might put together a book where female board directors talk about their journey. Obviously, it's tough to be one of the few female board directors at one of the Fortune 1000, but they're doing a great job and they've figured out how to make it work and there's a lot of advice, I think, they could give to the next generation coming along behind them. So anyhow, these are some ideas Hall, but if you've got a better idea, I'm very open to listening, and, we've published enough books now that we sort of understand the process.

Hall T Martin: [00:22:17] Well, great. We look forward to seeing what you come out with next. In the last few minutes that we have today, what else should we cover that we haven't?

Matthew Le Merle: [00:22:23] Well, I tell you what Hall? I'm going to bounce that back into your court. I've looked at your website, I've listened to some of the podcasts, you've got some great VCs, you've got also thematic podcasts where you pick a theme and you focus on it and you give advice through that podcast to the listeners. So, what don't you have that we should talk about? What's on your list of the next podcasts you'd like it to be such and such? Or, your audience needs to know more about such and such, and then maybe we can chat about that topic.

Hall T Martin: [00:22:57] Sure. I think now that we're coming out of the COVID pandemic and various stages of reopening and _____ and so forth, the economy is getting a whole new set of careabouts, there's a whole new range of new technologies and of course, your book is talking about that new era. But, in this time frame, what are going to be the new careabouts that startups should be pursuing? Many startups are continuing what they did before, they were online with content and engagement, but many were not. And, even those who are online are finding that the market has changed and the needs are different. And so, we're looking at what are going to be solutions to the next stage of problems: food security, wildfires, climate change. A whole new range of things are on the table and these are the things that many of our investors are trying to sort out, is, how do you approach those, and then startups, how do we solve those problems? So, those are the things that we're looking at these days.

Matthew Le Merle: [00:23:54] Yes. Well, that's great, Hall. So, taking that from the top, this terrible pandemic that's been so terrible for many families and many businesses in America has a silver lining, and that silver lining is it's accelerated all of the adoption curves towards our future. It's always difficult to get established businesses and established industries to change; this year, they've had no choice. And so, whether it's telemedicine, or digital education, or virtual and digital entertainment, or electronic commerce, or digital payments, all of these things have been greatly accelerated because of this time. And, those adoption curves aren't, we think, going to reset and go down because we think Americans have discovered that it's not that bad to buy things at home with the click of a button and have it delivered the next day. Just to use an

example, you and I have been using Amazon probably for decades, but most of America doesn't or hasn't up until this year. By the time you get something like telemedicine, most of us still go to a doctor's office in a 30-minute slot that we booked two weeks ahead, and then we sit in the waiting room exposing ourselves to other germs and problems, and then we get our 30 minutes in front of the doctor. Well, guess what? The doctors are really enjoying doing real-time virtual sessions with their patients, almost on demand. So, there is a silver lining in this pandemic and it's the future has been accelerated. That's true in the digital economy. With life sciences, I think it's true, too. I think that there is an urgency now for some of the technical breakthroughs and innovation breakthroughs that people have been working on for decades, it's just now we understand what a global pandemic can look like and we're beginning to say we need to accelerate and scale up some of those new forms of testing, those new forms of biopharmaceutical productions, which includes, by the way, accelerating trials and testing and getting products to market faster. People have been working on those issues, but it's been hard to get them through. All of a sudden, vaccines are being accelerated now and are coming to market so much faster. And then clean energy. It's somewhat orthogonal, it's not driven by the pandemic, but of course, we're all sitting at home and we're more aware than ever that strange things are going on on every continent. The weather, and the type of climate that we're experiencing, and some of the negative consequences are being held up every day now in our faces. And it's not a question of debating who did what to whom, it's about figuring out how do we move forward? And how do we move forward means clean energy, energy efficiency at scale, we've got to get these things done. I was just looking at Tesla, I've been a Tesla investor for a long, long time. Tesla just got record quarterly profits, thinks it's back on track to hit the 500,000 car mark this year, even though they had to close their factory for a substantial period of time. Why? Why is that happening? It's happening because a lot of Americans are saying, "Maybe I should try an electric vehicle". And whether you love him or hate him - Elon Musk that is - once you get in a Tesla and you drive around the block, you start saying to yourself, "Well, this is pretty cool". You know, and if I can have faster acceleration than a Bugatti, and if I can have a good amount of torque _____neck-snapping speed, and I can do all of that whilst also having a smaller energy footprint, well maybe I should give it a go. So, very long answer, but I think you just nailed it. I mean, early-stage technologists are investing in the future that we want to live in, and it's a fun game to play. You learn a lot, you get exceptionally high returns if you're fully diversified and if you follow the best practices, and every day it's like

drinking from a fire hydrant. I'm old enough that I could check out if I wanted. The reality is, I'm learning more every day than I ever have in my life, and it's just a lot of fun.

Hall T Martin: [00:28:37] Well, we look forward to engaging those challenges together. How best for listeners to get back in touch with you?

Matthew Le Merle: [00:28:43] So, Alison and I, we're available, we live in Plainview. You can add a dot com to either Fifth Era or Blockchain Coinvestors and you'll find us online, and contact details are at all of those places. If you're an accredited investor, we ask that you sign up because if you do sign up, then legally we're allowed to share more information with you. And then in terms of the books, they're all available everywhere. So you can just go to Amazon, or Apple, or Smashwords, or your own favorite online book company and just plug in my name, it's probably easier. There's more Alison Davis' than there are Matthew Le Merle's, there's only one Matthew Le Merle that I know of. And if you plug my name into Amazon everything pops up. So anyhow, look Hall, I love what you're doing, I think that you're really adding a lot of value to your audience, I'm so happy you thought we were worth one of your segments, and if there's any way we can help you and your audience, just let me know and we're here and we want to help.

Hall T Martin: [00:29:49] Great. I want to thank you for joining us today and hope to have you back for a follow-up soon. And, looking forward to next steps there. Appreciate your taking time.

Matthew Le Merle: [00:29:58] Well, I enjoyed it, too. And, I know some of my answers were long, but always happy to do another segment if you think it warrants and we could double click on an industry or on a particular theme if you're interested in doing that another time.

Hall T Martin: [00:30:13] Sounds good.

Matthew Le Merle: [00:30:14] Thank you very much and good to be with you.

Hall T Martin: [00:30:18] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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