

Kate Mitselmaher of Bloccelerate VC

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hal Martin, I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

Investor Connect is a 501 C three non-profit dedicated to the education of investors and strives for fundraising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Hello, this is Paul Marchant with the best connect.

Speaker2: [00:00:46] Today we're here with Kate Mitselmaher general partner at Bloccelerate VC. Bloccelerate VC is a platform for blockchain products and services to actualize their true potential. Accelerate provides them with world class mentoring, go to market solutions, access to peers, developers, pool academic evaluation and research, access to markets, regulatory compliance and funding necessary for them to succeed. Kate, thank you for joining us.

Thanks for having me.

So tell us more about your background before investing in early stage companies.

Sure. My background is, I guess, somewhat unconventional in venture capital world. I did not come from another large venture capital firm and then started my own. I came from a market research firm focused on information technology called Gartner. Gartner works with 98 percent of CEOs, chief information officer of Fortune 500 companies, and helps them understand technology trends. So I was fortunate to be exposed to a variety of technology trends from two thousand and 10 onwards. Blockchain came to our attention early 2014, that was at the time I moved from London to Silicon Valley to join the venture capital and private equity research side of Gartner. And they got to work with some of the leading venture capitalists in the valley. And it was interesting because none of them at the time were interested or were looking at blockchain as a potential disruptive force. So I started getting involved with that, I bought my first bitcoin back, then started going to Ethereum meetups. Started dabbling with cryptomining.

So that I can understand this technology a little bit better. And then in parallel to that, I was doing my master's to Harvard in international relations and foreign policy, so. I was trying to get my head around a few different government use cases of blockchain, things like voting. Provenance of titles, for example, in real estate, and there were some live proof of concepts happening at the time with the government of Honduras. So all of that led me to decide to say goodbye to Gardner and start my own fund focused on that vision that blockchain will become the. Fundamentally disruptive force creating trillions of dollars worth of value over the next five to 10 years and I had a jump on it and invest in it.

Great. So what excites you right now?

What I'm excited about at the moment is the idea of bringing 300 trillion dollars worth of real world assets on chain. We have seen a number of crypto native assets originate live and trade on chain over the last five to 10 years, and there's a good amount of infrastructure that's been built to help facilitate that, but we're in the very early stages of actually having. Real world brought on chain and originated in be having the functionality of trading on chain in the same way that you can do with with native cryptoassets. So examples of that could be. Real estate or real estate loans or mortgages or packaged collateralized lending obligations or forms, for example, with just invested in a company called centrifuge, and they have a number of real world assets pools.

On their marketplace, and you, as an accredited investor, can go and generate yield against that, and it's done fully on chain, which has a number of advantages, one of which is transparency. So you can see real time, which loans are being paid out, which loans are defaulted and what's the credit worthiness of each pool. And the track record. Another area I'm excited about is the idea of non-existing assets that previously didn't have any monetary value. Or we're not liquid in any way, shape or form brought on chain and now having that value that wasn't previously there. So I don't know if you heard about the meme economy, for example. It sounds silly, but memes for years, we're there in a non monetized fashion. Onion cut is one example from back in the nineties, which created enormous amount of value but didn't have an avenue to monetize itself until blockchain. And now we see these markets where these memes are being traded for billions of dollars. And yes, some of it is overhyped and probably will crash the next bear market. But I think in the long term, we're going to see the rise of new economies that haven't

been in existence before. And memes is just one example. Another example is tokenizing sporting moment moments. That wasn't possible before.

Or an athlete's career where now all of a sudden, you can participate in the success of your favorite athlete. As a token holder of the smart contract. Which ties athletes revenues to that contract? There's actually an exhibition happening in Miami at Art Basel starting tomorrow. I'm going to be there and they're going to announce the launch of one of the boxer's career on blockchain in the form of an NFT. So I think that's just the beginning, and there's many other examples, but that should give you a taste. Quite a bit is going on. It is an exciting time in the blockchain world.

You see a lot of you see a lot of startups and investors in the blockchain space. What's your advice for people investing in this sector? What do you tell them to do before they write that cheque?

Well, especially at the moment, it's really easy to get distracted and try to chase the shiny object. And as you can imagine, prices are going up, so it sounds like you can't lose money. What is it that you put your money into? But you can and we have seen that over the last three years, the market over time adjusts itself to. Reflects the reality, so focusing on value and fundamentals, I think, should be the fundamental belief of any value based investor, no matter whether you're investing in blockchain or raw materials. The second. Go ahead. No.

The second the second point is I personally found that experimenting with technology before investing in it is very helpful. So my experience with cryptomining was very helpful for me to understand how tech works. There are plenty of ways to get exposure to these new technology applications online. Most of them are retail focused, so you can just download MetaMask and start playing and it. These are fi or TS purchasing your first set of T. Even if it's not a multimillion dollar Beeple artwork, that's something small. We'll give you exposure to how this works. And I think the third piece is ultimately it's all about people, so finding the right people to back is extremely important because ultimately they will be the ones who bring this vision to life or not. Great. And then on the other side of that table, what's your advice for people running start ups? What do you tell that founder to do before they go out to raise funding for their blockchain business? Well, before or after, I think the first point about chasing the shiny object would apply to entrepreneurs as well. But I think for entrepreneurs, it's easy to confuse the value that they created for the world of the value of the token or the value of the valuation that investors are

placing on their company. And at the moment, you know, things are overvalued. So everybody seems or thinks that they're doing great. I think that being grounded in reality is very important. And not to give in to the hype. And it's not easy. The second point is. I see this as we've have such an enormous opportunity to innovate at the moment and innovate not just in terms of technology and new applications, but also innovative terms of business models, and there's a lot of room for creativity. So as an entrepreneur, I would encourage you to not be afraid to experiment with business models, maybe things that worked in the past. Like SAS software as a service are great, but maybe there are different ways to monetize on the value that you're creating to the world and just trying to. Be creative and not be afraid to fail, I think this is an important point. Right. Well, and I would say the last thing is. Similar to to what I said for investors focusing on the people, I think the same applies to entrepreneurs, which is you have to focus on surrounding yourself with people who had value, be those investors, be those hires, mentors, advisors, customers. The more of those you will find, the better chances you will have in succeeding. So that would be my third. Point,

great. So, you know, the state of investing, let's talk about that. How do you see the industry evolving from here?

It seems like we're in a exuberant moment, like we were back in twenty seventeen and we know how that turned out in twenty eighteen.

But where we are here today, where do you think it's going? Yeah, I think the best analogy I heard is think of it as we just uncovered this plot of land in the desert and we decided to build Las Vegas on it. You know, we just built a few roads. You know, the first the first people who are attracted to this, this city are probably speculators. So they came and built casinos. And we have these casinos now that are working and working well. There's no highways. There's nothing connecting those roads. But those things will come. So personally, I am not a huge fan of speculation. And I haven't I haven't been in twenty seventeen, and I'm not a fan of it today, however. One thing that speculation drove in this industry is the creation of the fundamental infrastructure. What we've seen happen is in terms of the protocols and evolution of those protocols and how they became more scalable was partially. Because of the speculation that was driving the value on those particles and you can view and 50s, which is the new type or metaverse, whatever you want to call it, as the next wave of speculation, but it's also creating this building blocks for the next layer to the next wave of applications. So I'm excited about the

idea that we're building the infrastructure. And yes, speculation is still driving a lot of value, but over time, we're building the foundation for multi-trillion dollar applications to be built, and those applications will not be speculation driven.

They will be, as things I mentioned, real world assets brought on chain. Enormous efficiencies, disintermediation. And, you know, things that people will actually use, not just to game the market, but will actually use for day to day life. And so what do you think is the biggest change we'll see in, say, the next 12 to twenty four months? In the next 10 to 10 to 12 to twenty four months, one to two years, yeah. Well. Hmm. Let me start with what I've seen in the last 10 to 24 months. Okay. A lot more media attention to this industry than before. Maybe I just didn't watch Bloomberg, but I didn't realize that Bloomberg was now pretty much a crypto coverage company. If you watch watch their episodes on a daily basis, they cover crypto pretty regularly. And I think that's going to continue. The second change that I've noticed since Twenty Seventeen is there's a lot more quantifiable metrics about protocols and projects in the company. In twenty seventeen, you were just investing based on the hype and based on and beauty contest. Whoever thought that something was going to go up in value, you would put your money behind it. Now you have real metrics like revenues, protocol revenues, PE ratios. So the industry is maturing, and I think that's going to continue to to improve. And the third thing that I've seen is the talent influx.

Which is the positive outcome of the of the hype and the buzz. People are leaving, well, respectable jobs in the financial industry and the tech industry to join crypto startup blockchain startups, and I think it's a good sign. What do I think is going to happen in the next 10 to twenty four months? Because we are in this exuberant phase, I think it's inevitable that we're going to have some form of correction. I'm not sure if it's going to be as profound and dramatic as what we had in 2018. But I would not be surprised if there would be something of that nature. Maybe with less of a downside in terms of fluctuation and I think. As much as it was difficult for us as a fund because we were going through the fundraising process at the time, it was also good for the industry because it washed out a lot of speculators who weren't in it for the long haul. And I think right now we're seeing again. The elements of that happening in the industry, and it would be nice to to have some reality checks come in. But I think over time in 24 months, we'll come back and we'll come back stronger. So things that fundamentally have value will have value. Today, 10 months from now, 12 months from now, twenty four months from now.

Right. Well, let's talk about your fund.

What is your investment thesis and criteria for funding deals?

So criteria, let's start with that. We invest seed, whole seed and Series A. Check. We also have done series videos, but that's more of an exception than a rule in our fund for like early stage companies. And in terms of the thesis, if we look at our portfolio, I would probably break it into five different broader themes. The first that I mentioned, which is I personally believe that more than 100 trillion dollars worth of. Real world assets will come and change by 20 30. And I think that's probably a low one number. Probably more than a hundred trillion. So investing in platforms that bring those assets on chain, how institutional custody those assets is one example and portfolio companies in that category are Centrifuge Montoro and Tora does infrastructure loans and bonds on chain and a few others. The second trend that we're seeing and the thesis that we have is governments around the world will adopt some form of a virtual currency. Instead of Fiat or in complement complementary to the fiat currency, and that could be in the form of CBDCs central backed. Digital currency, or it could be in the form of fully decentralized stablecoins, and one investment we have in that is MakerDAO with their DAI stablecoin, which is collateral backed stablecoin, and MakerDAO essentially is a central bank de facto central bank for the DeFi space. And now there are trends and theses of ours is around enterprise and institutional adoption of blockchain technology.

To. Replace a portion of the technical stack in those enterprises. And we're seeing a portion of that stack will be replaced with blockchain. Protocols over the next five to 10 years. And examples of companies there are block ups, which is an enterprise platform for supply chain provenance, traceability in the energy markets and in the agricultural space, and we also have an investment in Symbian, which is a platform for financial services, so they'll work with the likes of Vanguard on the data index problem. Among other use cases. So that's three I can keep going if you want or I can pause. Oh, I think that's good. I think that gives us a good idea of the investment thesis in the areas in which you interact.

Let's let's talk about the challenges in the space. What do you think is the main challenge to startup in this space?

Space is in launching. Of course, there's many to choose from, but what would you put at the top of the list? Challenges for startups. That's right, if you're a founder, you have to navigate the

regulatory, you have to work with brand new technology. You have to convince customers to move to a new, you know, methodology of working. It's not traditional enterprises blockchain, which brings a lot of advantages, but also brings a lot of issues, performance, et cetera. But right? You're very close to it.

Speaker2: [00:20:37] What do you think the startup that you see out there, what do you think is their main challenge?

So it's really hard to answer this question, because there's a variety of different startups, even in the blockchain space, and they have very different challenges. So what you have mentioned is, let's say, companies like Blackcaps and Enterprise blockchain platforms, they would have a completely different set of challenges from, say, another company that we invested in Cold Corn Stamp, which is a smart contract auditing platform. But let me try to give a sense of both on the on the former enterprise blockchain startups. Yes, things that you've mentioned, this is a brand new technology, has scalability problems, it has reputational problems and risks, and it has regulatory risks. Regulatory is less of a risk in case of enterprise blockchain platforms because they don't have a token, so they don't have to deal with that. With that implication. But they still have to convince their customers that whatever the status quo, they're using these at a database, Oracle database or a spreadsheet or communicating numbers through emails is less effective than than their solution. But I think it's a probably a common challenge, not just in blockchain, but probably in software in general. Companies like Quantum. Which do smart contract audits? They are currently. Faced with scaling problems. You know, there's incredible amount of demand coming from. Rising number of smart contract platforms and applications that need to be audited, and ultimately you only have 24 hours in a day and X number of full time employees, so how do you scale yourself? And one answer can be you can scale yourself with building software that automates things.

But in case of smart contract audits, there's a limit to what you can actually build and scale. In terms of software, you still need people to review the code, verify that the logic makes sense and. The economics behind it makes sense. So, so that's another set of challenges, the on the other side of the spectrum, the token investments of ours. It's like centrifuge. They do have to deal with regulatory challenges, and in case of centrifuge, they made a choice to go full KYC AML route, which is helpful for us as an investor. So they, even though some would argue what they're doing, which is CLO based. Acid coal loans are not securities. They only accepting credit

investors as their. As their investors on the platform. But the token is still out there, and it could potentially face scrutiny from S&P over time. So I would say that's the spectrum of challenges varies depending on where you sit in this industry. But. You know, there are growing pains of any industry, and especially the one that's so young is blockchain.

Right, and then what do you think is the main challenge the investor faces in looking at blockchain deals?

Just the sheer volume of them right now.

If we spoke a year ago, I would be probably saying the opposite. We don't have enough deals and now there's just an influx of deals. So as an investor, unless you are operating as defined and you have a full functioning due diligence process and team, I would not advise you to try to make your own investments in this space. I would rather have you put your money with a fund or a few different funds, be that venture makes a venture hedge funds if you're more into the trading side. Then try to try to chase deals and make your own investments. You're just going to get burned and yes, you might get lucky, but. Most likely not.

Well, you know, there's a lot of subsectors and applications in the blockchain space, if you had to pick one or two that are really good opportunities to pursue in today's market, what would you call out?

If we were to assume that we are in the middle of irrational exuberance, as we call it. And. There are lots of. Speculators who are trying to raise money through token offerings, which we had in 2017, you know? Would be very. About investing in tokens right now, as much as as lucrative types of opportunities that will not be there a year from now, I would say I've been there, I've seen that we have a lot of people have been burned in twenty seventeen and I'm not saying not to invest in any, but be very careful and cautious when you do that.

And usually things adjust and things kind of come back to reality at some point in time, so you will likely have an opportunity to participate regardless. Things that I would have liked to invest in back in twenty seventeen, in the midst of the hype that we had gone through and still would have said this was a good investment today are things that supported the growth of the industry. So things like what I just mentioned with Quant Stamp, which is smart contract audit platform, you know, fundamentally, we know there will be more smart contracts and smart

contract applications in the next five to 10 years. So the need for smart contract auditing will be there no matter whether we're in the bear market or in the bull market. Yes, their revenues might fluctuate, but preparing yourself for the next cycle of innovation, there will be a need for a company like that. Another example is a company like Sun Ledger that we invested in, it's a cryptocurrency tax software company. We know that compliance and tax reporting is very, very low right now and it is just a matter of time before that number is going to go up or it's going to be forced to go up. So picks and shovels that serve the growth of the industry. Support the compliance of the industry, I think, will be increasingly important.

And I would say you can't really if you can't find an application that will be the next trillion dollar application, you can't go wrong with investing in the protocols because protocols de-risk your investments because they have hundreds of applications built on top of it. So investing in Ethereum, I would have still been happy even if I invested at the peak of twenty seventeen market at twelve hundred dollars per east today. To capitalize on the growth of the protocol and there's a few others, and there's layer two solutions that are now coming coming to the market, but those would be the three things that would probably point you to, right?

Well, in the last few minutes that we have here, that's helpful. Yeah. What else should we cover that we haven't?

I think we've covered quite a bit. I think so. Think of anything right now.

Well, great. So how best for listeners to get back in touch with you?

I'm on Twitter at metalworker. You can message me direct. Message me there. I also check my email, I try to keep up with it that sometimes unsuccessfully and it's cheap and accelerate that we see Luxor with two seats. And we also have a Twitter page for black, celery and celery.

Right. Well, those in the show, you have questions. Yeah, and well, thank you for joining us today and hope to have you back for a follow up soon.

Thank you, Paul, appreciate it.

Speaker1: [00:29:34] Investor Connect helps investors interested in startup funding in this podcast series experience, investors share their experience and advice. You can learn more at Investor Connect Talk. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by host and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.