



## The Beauty of Venture Capital – A Love Letter

Dear Venture Capital,

It has been a while now since we first met, and I must say it's been a whirlwind of a ride. Even though you admirably suppress your true volatile nature with time lags and optimistic sentiment, you still vehemently reserve the right to dish out whiplash at will.

Many warned me about the perils of getting involved with you. The clear-in-memory "dotcom bubble" was used as a cautionary tale to keep me away from you. Many stressed that I did not have the requisite access to get the best of you. "It is like playing the lottery", "only the top 5% consistently compensate you for the risk, i.e. persistence", "most of the holdings are cash flow negative", "it takes a very very long time to see rewards (aka distributions)", "ownership is so meager that control cannot be imposed nor assessed", "failure rates are dizzying", etc. are a few of the many dissuasions that were thrown my way to prevent me from exploring a relationship with you. Fending off the haters almost became a full-time job.

"Buyout" investing has remained the belle of the ball in private equity circles because of its relative stability (innate downside protection), cash flow positive attributes, ability to take on high amounts of leverage to juice returns, exit optionality, and operational improvement clarity. "Growth", which magically appeared in the past few years, and which exudes an androgynous mix of your (Venture) and Buyout's DNA, is now also a worthy contender for suitors. The private equity investing playing field has become strewn with numerous solution providers and added layers of complexity. Even you have morphed and taken on multiple personalities to both denote different levels of risk and also help with the building blocks of portfolio construction. ["Angel"](#), ["pre-seed"](#), ["seed"](#), ["early-stage"](#), ["mid-stage/expansion-stage"](#) and ["late-stage"](#) granularity make you a uniquely intricate entity to understand. I cannot argue against continuous self-development, but your incessant amorphous nature causes consternation to even your most faithful devotees.

Despite some compelling forewarnings about your toxicity, your positive virtues continue to enamor me. From spending a considerable amount of time together, I am staunchly convinced that you are the most indispensable part of private assets portfolio construction. For opportunistic investors who want exposure to the most potentially rewarding parts of private assets, you offer the most logical path. For investors with a strategic disposition who are looking to build a stratified private assets portfolio, you are one of the main food groups that must be considered. Where else can investors get exposure to nascent elements of the economy that have the potential to propel humanity forward? Where else do you hear about things that initially sound like science fiction but then quickly become everyday necessities? Where else do you get diverse thinking and approaches to historically homogeneous and closed-to-the-general-public sectors? Where else do you get bonafide disruption? I know I sound like a simp or fanboy, but the truth is self-evident. However, you don't make it easy – many frogs must be kissed. It is not by coincidence that the [gap between your top- and bottom-quartile returns](#) is the largest of all the asset classes – you make people work very hard to get the best of you.

Thankfully, your progeny (spinouts from renowned venture funds) give hope to many that they can one day (if they take the plunge) also generate top-quartile returns. But your many variations increase the palpability of risk – this explains why when combined with expansion/growth capital (which has more venture characteristics than any other asset class), you (Venture) generate the most [consistent top performance going back many years](#). You



further showed me that even the most tantalizing IRRs are never edible. You helped me to focus on the eventual sweet taste of DPIs, even if it takes Venture longer than most to cook fully. Let's not forget that you are also responsible for bringing mystical creatures like "unicorns" galloping back into the zeitgeist. Your enigma will remain your strength, and what people dismissively disparage about your personality is actually your superpower. Oh yeah, you also taught me how to use the cool slang term, "superpower", to describe the most elite skillset of members of your tribe.

The challenge that will continue to haunt our relationship is fully understanding the prerequisites of success when considering a union with you - there are so many aspects that remain hazy in my mind. For example, I still yearn for a clear explanation of ["value add" and "operational improvement"](#) within the Venture construct. I also want to understand better why you are so prone to "gold rushes" like the current one in "AI" – obviously, there is the potential for large returns if the selection is accurate, but are you, Venture, so democratic that every player has the potential to choose correctly? And why does it seem like you are mainly fueled by FOMO? Also, will I ever get a straightforward answer regarding the importance of having/keeping reserves for follow-on investing? Many argue that having [reserves signals to potential portfolio companies that you will be there for the full ride](#), but others say going in large in the beginning [shows conviction and encourages deeper due diligence upfront](#) – which is it?

This love-tinged inquisition could twist and turn forever; however, the gist of this communication is to give you your flowers and show appreciation for all that you do. Like all relationships, there will be peaks and valleys (commonly known as "cycles"), but from you, I have learned that groundbreaking ideas do not have a season, so I will remain unabashedly loyal.

Faithfully,

*Anthony Kwesi Hagan*  
*Founder and Head of Research, Freedomization™*  
*March 31st, 2024.*