Inside Mischief VC's Evolution with Zach Perret and Lauren Farleigh

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SUMMARY

Lauren Farley and Zach Pereé, co-founders of Mischief VC, share insights on building their venture capital firm by leveraging their experiences as founders. They emphasize a founder-driven investment approach, focusing on early-stage software companies, and discuss their unique sourcing strategies and firm infrastructure.

- *Mischief VC was founded by experienced entrepreneurs Lauren Farley and Zach Pereé, who sought to institutionalize their angel investing experiences.*
- *The firm operates a generalist fund, primarily investing in software startups with check sizes between $1-4 million.*
- *Their unique advantage lies in their founder empathy and operational experience, allowing them to support portfolio companies effectively.*
- *Mischief VC employs a people-driven sourcing strategy, leveraging their extensive networks and hosting structured dinners to connect with potential founders.*
- *They prioritize first checks over follow-ons, focusing on early-stage investments while maintaining a disciplined approach to capital allocation.*
- *The firm is evolving from a $30 million fund to an $80 million fund, adapting its strategy to lead rounds while ensuring quality in founder selection.*
- *Mischief VC aims to build infrastructure that helps founders with common challenges, such as recruiting and operational strategies, while fostering a collaborative environment among partners.*

[Music] Welcome back to Turppentine VC, the podcast where we discuss the art and science of building successful venture firms VC to VC. In today's episode, I speak with mischief VCs Lauren Farley and Zach Pereé, who discuss how they've leveraged their founder experiences to build a differentiated VC firm. Zach is the co-founder and current CEO of Plaid. And Lauren was the founder of Dot Shopping. Up ahead, you'll hear their approach to sourcing deals, supporting founders, and unique firm infrastructure. Please enjoy. Lauren, Zach, welcome to Terine VC. Thanks for coming on. Thanks for having us. Thanks for having us. So, Lauren, sorry for those who are unfamiliar with with with Mischief. Why don't you give a a brief background? You you have a 30 million fund one, you're now on 80 million fund two. Why don't you tell the story of how Mischief came together? Yeah, for sure.

Well, Zach and I had known each other for a very long time. We worked together right out of college. I went and and started a company. Obviously, Zach started Plaid. I think, you know, while I started my company, I realized that kind of the the best people on the cap table were really other founders. You know, folks who had done kind of that zero to one journey. And I think, you know, wanted to pay that forward.

Started angel investing in 2017, really enjoyed it. I think Zach started angel investing around the same time. We worked on a lot of deals together. And I think you know pretty quickly realized that more than just paying it forward there was really a market opportunity to sort of institutionalize what we were doing. Still a relative rarity I would say in venture and particularly I think at the earliest stages to find investors who you know have that 0ero to1 like true finding product market fit experience. And so that was really the the spirit with which we sort of launched fund one in in 2021 and now yeah have scaled it to fund two have added two more partners both of who embodied that sort of ethos that you know really drove us to to start it in the first place. The the story I like to tell about the early days of Plaid is you know I I started the company I think it was 23 when I started the company. I had an amazing co-founder also like equally inexperienced as me. I'd worked a year at Bane. I thought I knew everything about the world. It turns out I knew basically nothing about the world. And we were fortunate to have these two really early angel investors who had founded like big companies and were also just like they were they were in it for the grind. Like they loved the building of companies and and were willing to take our call on on pretty much anything. They worked at a completely different industry than us.

They they had no idea about financial services. But I could call them to say like, "Hey, you know, I'm struggling with this hire decision or I I I need to fire this person or I have this crazy situation with a partner." And just the level of input that they gave was was transformational to the company. And you know the the inspiration for Mischief is we wanted to build the same thing. It it it takes you know often times it's just one call at a critical inflection point with someone that's been there before or they can lend lend the right ear that can give you the right advice to meaningfully change the trajectory of the company. And it's not to say we're only there for those moments, but really having someone that has been in the room where it happens to actually call when you are when you find yourself in a very similar room. Um, that was the that was the inspiration for for starting the firm. Lauren, why don't you share more about what you guys invest in or or how founders should think about mischief in the market. Yeah, I mean, I think you know what we invest in at a high level.

We're a generalist fund, so we'll do anything that's software. We don't do anything that's capital intensive or holds inventory, but sort of within that bucket, we'll look at everything. We're really more founder driven and talent driven than we are sort of thesis or or sector focused. We do preede seed leading round. So check size is generally between 1 and 4 million. And yeah, I think like the unique advantage is exactly what Zach said, our building experience. And I think that manifests in one sort of the way that we're able to help companies post investment and you know be the bat phone as as we call it internally when something you know comes up and hopefully be able to you know ask the right questions and you know offer advice if it's helpful. And I think second to just the founder empathy that we're able to have allows us to have a relationship that you know I think if you ask our founders hopefully feels really different than other VCs. I think we all know that like even in the best case scenario, it's a rocky bumpy ride. It's not going to be perfect all the time. And so, you know, you can really treat us as a thought partner.

And one thing we were saying offline is that you guys are not doing a ton of capital intensive businesses. You know, we're in an era where where companies are raising a ton of money for AI companies or American dynamism companies. Why don't you talk about how you think about capital discipline or what kinds of businesses might not be perfect fits for for for mischief? We are very disciplined and aware of how dilution will impact our returns, especially just given our strategy and fund size and everything else. And so, you know, just try to be really thoughtful about that. Number one and I think number two, you know, we as we're more talent driven and more founder driven than than sector driven, I think we're pretty uniquely not afraid of, you know, sort of going our own way and investing in companies that are a little bit outside of the hype. You know, we certainly invest in a lot of AI companies, a lot of LLM companies, but you know, we try to just be first principle and and invest in kind of solid fundamentals outside of, you know, what everybody's talking about and what prices are getting really high and kind of all of that, which I think sort of leads to to the strategy that works for us. There's so many strategies that can work in venture, though. Yeah. Yeah.

Zach, you we were talking offline about how how people driven your your investing is and and what sourcing looks like for for you guys. Why don't you share more about that? If you think about sourcing, I don't know, in what I think is a somewhat differentiated way, when you look at funds, they have all sorts of sourcing models. They have people that are doing outbound. They have like all sorts of stuff. Ours is like hyper people driven. We're fortunate that, you know, each of the the the the 4GPS at mischief has been in Silicon Valley like working for, you know, 15 sometimes more years and that's generated a pretty massive network. And our thesis is we want to identify the best people that we know and follow them around when they're ready to start a company. Um sometimes with our encouragement, sometimes on their own valition we want to we want to lead the round. We want to be a part of it. And then you know we want to ask all of the amazing people that we know to introduce us to more and more amazing people. And so you know we have we have a couple tools for this but we do things like like if I do say so myself we we we host epic dinners and we do these we do it's a group of call it 10 12 people. It's a structured conversation. Like we're we're really good on like the timing.

Get people in, get people out. And you can go really deep in that in that period of time. And you know, we we do a ton of these and then we ask the people that we invited to one to tell us who to invite to the next. And you end up building the network through this this this process. And we do a couple of other odd things like you know, we companies send us uh monthly updates or quarterly updates. We thought we should send companies quarterly updates about what we do. So you can see like a mischief like Q1 update, Q2 update, Q3 update. we send that out to our our our companies and kind of tell them, hey, this is what we're thinking about. These are the resources we're we're thinking about providing to you. Like this is the way that we can help. And by the way, if you have any amazing founders, send them our way. And so kind of this like very peopledriven approach. It's netted us a really lovely sourcing funnel. And frankly, it's way more fun for us. Yeah.

I think updates of your firm to your companies is pretty clever. I'm surprised more firms don't do that. It's a great way to to be top of mind and sort of keep them in on the action. we we we tend to to to think of operating the fund like we operate a company. So, we came into this thinking about like, oh, like we'll we'll we'll we'll take a lot of the best elements of of being a founder and apply it to the way that we actually run the fund. This was one that just really seemed obvious, like giving people an update on your progress, inviting them to be a part of it, asking for help when you need help. I don't know, it just it just felt natural.

Lauren, why don't you talk about the evolution from fund one to fund two? Because going from 30 million to 80 million is a is a big jump in in a bunch of different ways. you know, it's it's much more to fund raise for, but also it's it's a different strategy. You went from participating to to so talk about what that transition was like and how you guys decided to make it because some like Box Group, you know, stays as as a firm that participates in in perpetuity.

Did you guys know you were going to transition eventually to to leading or what what did that look like for you? Yeah, I think when we started the fund, you know, we always had kind of big ambitions, but I think like good founders, we've thought about it as an evolution and, you know, seeking validation sort of along the way. And I think even that fund one at a $30 million fund, our average check size was 200k, which was significantly higher than um any of our angel checks. So, I think that fund was really about proving that, you know, we clearly had great access to founders. we were able to, you know, wedge a 20k angel checkin, but that's not that hard, right? And I think with fund one, you know, it was like, okay, well, can we get a 200k check in?

Can we deploy, you know, 30 million and not have to sacrifice at all in terms of, you know, quality of founder, quality of company, quality of deal, all of that. Um, and I think pretty quickly, you know, halfway at least through fund one, we realized that, you know, that was going really well. We were able to get those checks in. we were really sort of transitioning from being known as angels in the ecosystem to being an actual fund and started thinking about you know what that fund too could look like and I think of course when you're growing your fund you don't want to you know change your return profile and so you know certainly thinking about okay can we start leading rounds and most importantly can we do that without having to you know change the bar in terms of the company that we're we're investing in and I think there was one moment where one of our best performing fund one companies came to our holiday party and after a few drinks he was like I wish you guys had led my round and we all went home that night. We were like because especially this company we wish we had led that round. Wow. Like we we we have to make the transition to leading but it is a really different deal motion. Like I think the types of deals we do now in fund two where we're leading same same quality same you know type of company but a really different deal motion that we've had to to kind of refine and and get really sort of up the curb on. I mean, especially just when you meet those companies or when you meet those founders, and we do a lot, as Zach said, to sort of be top of mind and be sort of in front of those founders before they even know that they're a potential founder in some cases. So, that's been really fun. Honestly, it's been, you know, definitely a new motion, but it's been a blast. And and and how how do you do that? Is it that you're getting introductions to people who may start companies in the future? Or is it that you're sort of, you know, because you guys worked at great companies, you're just tracking who's good, who's likely to maybe start something or what does that look like? Do we reveal our secret, Zach, or No, I mean, look, the the answer the answer is all the above.

Like, it's I don't I don't think there's a there's not a there's not a specific secret on this. Like, you know, being genuinely like interested in people, spending time with people, being in the network, you know, doing the things that we do. So like the the emails, the updates, the dinners, the um the WhatsApp groups that we we we create with people um and like you know putting this all together like you know we do spend a lot of time with people before they've founded companies and we do spend a lot of time in kind of like odd company situations. So actually like two of our investments were spinouts of another company. both of them like we were extremely operationally involved in actually generating the spinout. So you know we we we'd known in in in one case we'd known the entrepreneur before in another case we'd actually known the parent company before and you know the spinouts were messy and they were hard and they were strange and I I frankly don't think unless we'd done you know a pretty meaningful amount of of operating work before unless we'd done like M&A in the past we would have known how to do this. I think it's odd for a seed fund of our size to be willing to step in in those in those situations. And then both of these companies, by the way, are going to be like amazing outcomes. And so, you know, it's I think it's it's yes, the people driven portion of it, but it's also willing to like get in and do work well before you make the investment to help like the company exist. Um, and and frankly, it's it's really fun for us to get to get into those weeds. Yeah. I mean, obviously, the best marketing you can do for your next deal is delivering on your promise to to founders. And I think you know especially how we like to engage we often are meeting the the team around you know the founder that we backed and th that's where the next generation of founders comes from as as everybody knows and we really try to take kind of that long-term view and you know we're probably not we're definitely not the loudest on on Twitter in terms of you know VC voices out there but do we even have a Twitter account?

We do, but it's like it's pretty it's pretty silent. But I think because of the sourcing funnel of, you know, almost all of our deals come from other mischief founders or people that we've worked with in the past really, it can it can work for us. So yeah, to to that point, do it's like if you were these are, you know, not perfect metaphors, but maybe you guys are playing more of a ground game than like an air game if you're not, you know, sort of big on on on on social media. Obviously you guys are doing you know some great press coming on on on the show and and others but h how do you think about like does a firm need to have a a strong air game as well or or can is a is a great ground game getting great you know returns uh great results for for founders and being in great deals kind of what what really matters how do you think about that in terms of marketing of a firm I I think it's hard to say in general I mean there are so many incredibly successful venture firms I mean and each has totally different strategies you think of benchmark where they have a website which doesn't say anything and then you think of another firm that has a website that says everything and and you know so it's it's clear that a lot of a lot of strategies can be successful. We do appreciate studying other venture firms, but when when we think about what works for us, we try to take a first principles mindset. Like what is the thing that we're the best at? What are the places that we can have, you know, hugely positive impacts, you know, leveraging the networks that we have, leveraging the operating experience that we have, being really true to that, and then ensuring that the people that need to know about it do know about it. You know, the the joke that we make sometimes is, you know, call your VC at 400 p.m. on a on a on a Friday in the summer and are they going to answer you?

Are they going to get on a call with you that night? Are they going to be talking to you at 11:00 p.m. that night? And then like you look at our operating experience. You know, that's that's when problems happen, right? You know, problems don't happen 9 to5 Monday through Thursday. Entrepreneurs are up late at night thinking about the things that are like driving them insane. And like oftentimes, like that 11 p.m. call, that's actually what makes all the difference. And so for us, like that's what we're doing. That's how we're thinking. Like that's when we're awake.

That's when we're talking to people. And so if we just continue to be true to that, you know, I think that that that builds the right style of of reputation and relationship with the people that that that need to know about us. My take is like I mean it's great to have both a good air game and a good ground game, but you have to have a good ground game, right? Like over time, if you don't have a good ground game, it's going to be hard to have a good air game in the end.

So I think to the first principal's point, that's definitely the the most important thing. Yeah, you have to have a great product. If if you don't have a great product, you can't market it. And if you have a good product, sometimes it can market itself if if if it's that great. Hey, we'll continue our interview in a moment after a word from our sponsors. There's a growing expense eating into your company's profits. It's your cloud computing bill. You may have gotten a deal to start, but now to spend is skyhigh and increasing every year. What if you could cut your cloud bill in half and improve performance at the same time? Well, if you act by May 31st, Oracle Cloud Infrastructure can help you do just that. OCI is the next generation cloud designed for every workload where you can run any application, including any AI projects, faster and more securely for less. In fact, Oracle has a special promotion where you can cut your cloud bill in half when you switch to OCI. The savings are real. On average, OCI costs 50% less for compute, 70% less for storage, and 80% less for networking. Join modal, Skyav Animation, and today's innovative AI tech companies who upgraded to OCI and saved. Offer only for new US customers with a minimum financial commitment. See if you qualify for half off at oracle.com/turpppentine. That's oracle.com/turppentine.

Hey everyone, Eric here. In this environment, founders need to become profitable faster and do more with smaller teams, especially when it comes to engineering. That's why Shan Lanahan started Squad, a specialized global talent firm for top engineers that will seamlessly integrate with your org. Squad offers rigorously vetted top 1% talent that will actually work hard for you every day. Their engineers work in your time zone, follow your processes, and use your tools. Squad has front-end engineers excelling in TypeScript, React, and Nex.js, ready to onboard to your team today. For backend, Squad engineers are experts at Node.js, Python, Java, and a range of other languages and frameworks. While it may cost more than the freelancer on Upwork, billing you for 40 hours, but working only two, Squad offers premium quality at a fraction of the typical cost without the headache of assessing for skills and culture fit. Squad takes care of sourcing, legal compliance, and local HR for global talent. Increase your velocity without amping up burn. Visit choose squad.com and mention Tarpentine to skip the weight list. Um, say more about the the transition from a fundraising perspective. What was it like going from from 30 to 80? I mean, Lauren, you can tell the story about the second fundraiser. I I will just briefly say the first fundra like we it was it was too easy. Like it was bananas simple. I think we called I think we called four funds. I think we took three three checks. I think that took us three weeks to get to like terms. No deck. No deck. Yeah. It's just like super fast.

It was just like it was on the back of an angel track record and we were effectively writing like angel plus uh size checks. Um and so it was very straightforward. Fund two was less straightforward. Lauren, you should talk about that. You you did all the leg work there. I think you know the the ease of the fund one fund raise uh you know ended up being a weakness because we hadn't developed that muscle that motion and then when fund two came you know the market was obviously completely different we were more than doubling fund size so it was it was certainly you know something that we had to to work a little bit harder at yeah I mean I think it's been really interesting learning what that motion is like especially compared to raising money for a company there's things that are really similar right like you make a deck In the second case, we made a deck. You know, you think about your value proposition, what your unique advantage is, sort of all of that. But for a fund, the the process is so much more elongated. It's uh a landscape of potential capital providers that is infinitely more complex. You know, I think when I raised, for example, my series A, it was like I went to kind of the eight usual suspects on Sand Hill Road who did consumer deals and it was all done in in four weeks.

So, yeah, I think this was very different in that way and more opaque and kind of harder to figure out, but we ended up in a really good spot. And I think more importantly developed sort of that that motion and and understand you know sort of how to do a fund fund raise and that'll really help us going forward. And was your pitch something to the effect of hey we're we're proven entrepreneurs. We have a proven track record. We you know we're in great companies. They say great things about us. Back us. Yeah. Yeah. Do you want to you want to come fundra with us? Like you've got a doubt. It was pretty straightforward. Yeah, for sure. Yeah. I mean, I think, you know, we none of us have professional investing backgrounds and I think that at first in our first sort of few meetings, we sort of took for granted, I would say, that LPs would understand sort of the unique access and unique, I think, ability to win with founders sort of in competitive situations or just really high quality sort of deals. And I think we really had to learn how to tell that story in a way that LPs could really, you know, understand, wrap their mind around why this was special. And now I'm like, of course that makes sense. They're not on the ground the way that we're all on the ground and kind of understand the difference between, you know, somebody who, you know, like Zach having Zach on the cap table. this is how we really think about being fund managers which wasn't you know something that especially in fund one we had really given a lot of sort of reps to and is obviously a very important part of institutional investing to to that point I I think you guys have figured out something that others could figure out too in the sense of like if you're an iconic founder or a founder of an iconic company like like Zach is with plaid you could probably raise a bunch of money to invest as well. You probably have great access and you and and you know because founders want you and they're captable and you could probably raise a bunch and you know founders like angel investing and and but often they're they're busy and so they could also find an one they could raise money two they could find an amazing team or find amazing partners who would recogni one just want to work with them recognize that they have an arbitrage in terms of you know getting on the cap table as Lauren was describing but also an arbitrage in in raising capital and so I feel like there should more types of duos or or teams that involve sort of, you know, founders who are busy running these iconic companies who could get leverage from from a a team that's full-time investing. Yeah, perhaps I I think, you know, we're really fortunate in the way that the model has worked out and it's been something where it's been a huge win-win for kind of all of us in a lot of senses. Like speaking personally, spending time with companies at the earliest stage keeps me fresh. It keeps me learning. I get to spend time with companies that are just thinking about like the newest craziest ideas. Be it in fintech maybe or or oftentimes in you know in in fields that um are are adjacent or have good mental models or you know AI for example like keeps me on the cutting edge of what should PL be doing with AI. So staying really close to the early stage I think is really helpful for me. But I also don't have time to, you know, I certainly don't have time to lead a deal. I don't have time to to even do the level of angel investing that I had been doing before.

So in kind of like 2017, 2018, 2019, I've been doing a ton of angel investing. And the upside of angel investing is you get to to yes talk to a lot of companies. The downside of angel investing is that those founders then call you when they're in their worst possible situation. Um, and they don't always have other people to call and you don't have a lot of infrastructure that you've built around it. And so like you get these like weird calls at at at at crazy hours and like sometimes a lot of them will stack up. And so I was just like I was feeling fatigue from the angel portfolio despite the fact that yes I all of the companies that I angel invested like I hope will do incredibly well and I wanted to be supportive of there was just a lot of fatigue from from from doing that personally. And so the concept of partnering up with someone I mean Lauren we've known each other basically since we we graduated college. Nate and Dustin are other two GPS I've known for, you know, I think the shortest is eight years. Um, like all amazing amazing operators. Dustin basically co-founded Cash App and I I like he was a customer of ours for a really long time. So I spent a ton of time with him. Nate was like this product guru who I tried to hire to Plaid for like six years and he never ended up joining Plaid and through that we became friends and he taught me all about product and and it was amazing.

And so having kind of this group of of four of us has created the right level of like availability and also speaking selfishly insulation for me wherein you know if it's a thing that anyone else can help with which these are all amazing GPS in their own right then they they do help with it and if it happens to be something that I've seen before then I can dive in and and be really helpful on it. So like one of the examples I was talking to a company this past week they have like three of their big customers a really early stage company. Three of their big customers are all trying to acquire them at the same time. They don't want to sell the business. They want to like somehow make all three customers happy and like move on and keep going really fast. And you know I haven't been in that exact situation but I've been in similar situations before. And so that's one where where I can jump in and help. And then contrast that with you know someone else says hey I need to hire a head of product. Great. like there are other GPS that can that can jump in and help figure out how to hire a head of product and if I have something unique I'll add it but the infrastructure and the collaboration works really well and then just again selfishly like I don't do like I don't have much time to to to spend on it so I don't do a lot of like the fundraising first meetings I don't do a lot of the fund the fund admin so um I'm very thankful to the to the other partners for for doing that part for me Lauren how do you think about best leveraging Zach or or even just the concept of you know someone who's parttime but is able to, you know, add add a lot of leverage. Yeah. Yeah. I mean, I I think it definitely has worked really well in part because I think of the the relationship that all of us really have had with each other for for a while and there's just so much trust.

But yeah, I mean, I think we we think about just getting the most out of the the hours that we get from Zach. We think about, okay, sourcing, winning in special cases of enablement where, you know, the rest of us, you know, maybe haven't seen what what he's seen. and just try to keep it really focused like you said like the fund admin stuff you know some of the the the fundraising like we'll bring him in kind of at the end but in terms of kind of the day-to-day there that's that's not the best use of his time so we just try to be really I think thoughtful and and strategic but to your point I wouldn't I wouldn't be surprised if we don't see more funds like this in the future and I think we're already starting to sort of see that you know I think if you think about as the asset class has matured more dollars have flown in like the capital raising part is hard and important, but I think it all comes back to do you actually have an advantage with founders and with companies and I think this model clearly does or you know that's our perspective and so you know I think we'll we'll see more funds in the future that look like ours and I I really think that like in the next you know 10 to 15 years when people are talking about you know how seed has evolved or how early stage has evolved I think this will be you know one of the headline stories is you know folks who have actually been kind of in the the founding seat starting funds and you know sort of upsetting the the incumbents.

Zach, why don't you say more about the transition from angel to to institutional as as others potentially consider the trade-offs? The shift to an institutional model. I mean, we actually debated it quite a lot. The initial conversation that that Lauren and I had was should we just hey put our put our own money together and the two of us just do it completely ourselves and you know Lauren can help with us on more of the logistics and be more or less full-time on it and then we kind of just do it without any external institutions.

The the the real thought for us though was we wanted to be able to scale it up a little bit. We wanted to be able to do bigger checks and we wanted to be able to have deeper relationships with the entrepreneurs. So that's why we ended up doing the first fund and that's actually why we ended up shifting to the the the the lead investing. It wasn't only because we saw the opportunity in the market. It was also because we loved the depth which was with with which we could go with founders. And so I'm I couldn't be happier about where the fund has landed, but it was definitely kind of an evolutionary process to go through the steps. It it tends to work very very well for us. I think our journey was a unique one and little by little we found improvement by improvement and we've ended up where we are today. Say more about the the the firm construction. And I'm curious how you guys thought about, you know, companies per portfolio follow-on strategy. And just to give a little anecdote at at at when I was at Village Global, our first fund originally our the majority of our portfolio construction was geared towards follow-up. But then we we went through sort of, you know, 2021 where companies were getting marked up faster than the progress was was was demonstrating and we ended up shifting a majority towards first checks. I think almost like towards towards first checks. How have you guys thought about first check first versus first follow on? Yeah, it's evolved a bit over time. So, in fund one, it was no no reserve strategy essentially. I mean, we we do recycling.

We've done recycling for some follow-on opportunities, but really focused on kind of first check. And I think that was sort of where we were at at the time. And even fund two is primarily a first check strategy. We have a a small pocket for kind of followons. We are very aggressive about recycling, probably more aggressive than almost any other fund out there. But yeah, I think, you know, we feel like our unique access is really at the the earliest stages.

And, you know, that's where we see when we do our fund modeling, it's it's hard to do followons that aren't dilutive to returns, at least in our opinion. And I think, you know, in in the spirit of sort of delivering a unique value proposition both to LPs who often can't get as much early stages exposure as they want, especially in kind of the current landscape, you know, I think have have really focused on kind of first first checks as as our primary as where all the the primary capital is going. First checks are more fun. Yeah, first checks are more fun. Totally. And and how about in terms of ownership?

Where have you guys landed there? And are you sort of Some people say, "Hey, we're not doing anything above this valuation." Some say, "Hey, we'll do, you know, we're we're valuation open, but we have to see, you know, 100x potential." Where do you guys sort of net out there? Philosophically, we have a deal box and Lauren Lauren can walk through it, but but we also, you know, we want to always be looking at the outliers. We want to always be looking at the the the unique opportunities. you know, we we we do seed and preede, but then every now and then we'll look at a series A and, you know, the bar is higher and the bar is different, but there are very unique cases in which in which it makes a ton of sense. Again, going going back to where we started, it's incredibly people driven. And so, if we find an amazing founder, we want to find a way to partner with them, whether in the the early stage, whether a little bit later, you know, even if we're not able to invest, we still want to be their friend. We still want to be helping them. And so, we kind of start with the people and then and then work back to the opportunity. Lauren, do you want to go through the the the deal blocks more specifically? Yeah, I mean early stage like you know preede seed maybe some earlier series A's we'll look at but I think I mean what Zach said is exactly right. I think we have a a box and you know we know sort of where the market is is pricing deals in those stages. But as we always say you know rules are not meant to be broken but are meant to at least be evaluated should there be a unique situation. And I think you know our job is to figure out when there's a opportunity to potentially you know go outside of that. And so, you know, but yeah, I mean, I think that's sort of the art of especially early stage investing is knowing kind of when to to break your own rules and deal box, but we but I think, you know, we have sort of a framework in place so that it's harder to do that and we're not just, you know, willy-nilly, you know, getting outside of that. So, we've we talked about fun one, we talked about fun two. How do you guys think about the future for mischief? Because a lot of firms who've demonstrated success like like you guys have have their option of you know some say hey we're going to stay at this 80 to 100 like you know founder collective or first round up but bigger stay in the sort of seed game others say you know okay we're going to go to a but we're going to stay you know reasonably small like a USV or benchmark going to stay disciplined it's sort of 400 or wherever they're at now and then some say you know what we want to So, we want to go big like A16Z or General Catalyst or Thrive and be able to play at every stage and be able to have the a fee base that can justify, you know, having a a big and meaningful team and they're just kind of, you know, have different cost of capital. They're kind of playing somewhat of a different game. When you guys think about the future, you know, obviously you're, you know, taking it step by step like you mentioned, Lauren, but h how do you think about which you might prefer to be? Yeah, I mean, I think like you said, I think we're taking it step by step. I mean, right now we have four GPS on an $80 million fund. There's a lot of solo GPS on an $80 million fund. I think we feel, you know, definitely capital constrained, which isn't a bad thing right now just given the amount of GP sort of per dollar we have to allocate. So, I think, you know, we'll almost certainly grow a bit. I think our our back to the first principles thing, you we never want to be in a situation where we have too much capital and we don't know where we're going to put it. you know, we don't want to be doing a ton of outbound or, you know, just over our skis in that way.

And I think you'll see us stay really true to sort of what we think we can responsibly invest or invest with sort of the the return profile that, you know, our LPs want to see and and, you know, most importantly what we want to see. But I do think that means growing a bit just because I think we you know we want to be able to offer this product to to more founders and we you know certainly have I think the capacity to do so. We're right now in a very capital constraint environment where or we specifically the fund where we're like we're walking away from way too many deals that we really should be doing. So I think growing a bit makes sense but like we we love the space you know we we we we love the the model of getting to know people a lot. We love, you know, the the the stage of company that we get to invest in. I frequently I love the size of our team. Maybe maybe we'll grow the team a little bit, but it'd be really hard for us for us to do it. So, you know, growing the capital base, yeah, a bit, but staying staying fairly true to where we came from. Yeah, it is interesting. I I had a a friend who his strategy is co-investing with other multi-stage firms. I guess he himself has somewhat become a multi-stage firm.

But it it it's interesting because his sort of take was that if you look at a lot of the great seed deals over the last 20 years, a lot of them were actually done by multi-stage firms or or firms that you know become multi-stage since now and obviously you know founder collective first round other firms have done amazingly well and you know first round did Uber and stuff like that. There's a lot of counter examples, but it is interesting. I'm curious how you think about sort of multi-stage either either for yourselves or or just the phenomenon of because multi-stage because sort of the the trade-off is sort of, you know, signaling risk. Do you have time to focus on it, you know, stuff like that, but then there's also they can be less sort of valuation sensitive? They can put more capital and they, you know, have more resources to sort of pitch themselves to to entrepreneurs. How do you think about that? I mean, as you said, there's there's advantages. You know, I think especially, you know, we see sometimes first first-time founders or, you know, less experienced founders really want and potentially really need that brand for kind of recruiting, etc. But I think that, you know, as Zach said, like it's really important to us that the founders that we invest in get our attention, get our care, you know, that we deliver on that promise every single time. And I think that we're able to do that just because of the model. I mean, it's just a totally different strategy than than what multi-stage has to offer. And, you know, as a founder, I do think the signaling risk is very real. So, I I think that, you know, that's definitely something that early stage founders should should think about, but you know, it's always always a trade-off. When you talk more about where you see the asset class going in general, you are we are sort of bullish on more more capital coming in or do we think it's going to be more constrained environment more more broadly? Some people also say hey is is the is the asset class going to just bifrocate even further or barbell even further whether the aggregators just keep on getting bigger and bigger and then there's this kind of like specialization on the on the earlier stage but this kind of like caught in the middle you know firms caught in the middle are maybe in a tough spot sort of the 500 million to to a billion you know versus the sort of you know 8 to 10 and and on the one side and then the sort of you know 50 100 150 on on the How do you think about this?

I'm not sure I'm going to have like a specific prediction on on where all this is going to go. One of the things I'll say is when we're looking at a lot of companies these days, like the capital requirements are far less than they used to be. You know, we we we've always said this in in in in venture, you know, had I had I started Plaid, I started Plaid in 20 had we started Plaid in, you know, 2002, the capital that we would have been required to like buy our own servers and rack them and and run our own data center and like like that that would have been way higher. So the the cost to start a company has gone down.

Now you're seeing, you know, 15 person companies with $20 million of revenue because they're they're they're building these new AI tools that are growing incredibly quickly. they're they're using AI to get a lot of leverage in in in their cost base. And so I think it's entirely possible that you know the cost to build a company is going to come way way way down. I think what that means is like the rounds in which the companies need money are going to be very different than the rounds in which the companies are just willing to sell a little bit. So like there's there's like a a round in which like you got to really like build a thing and you need the capital to get off the ground. you you got to like pay your AWS bills, pay your OpenAI bills so and so forth and those are the rounds that that that that that we focus on that those are the rounds that you know that that the early stage will continue to focus on and then I think there will always be a lot of late stage capital at that point you know if these companies are profitable or they don't don't need the capital necessarily to scale operations in the same way then those are much more financial driven transactions and I think like the type of person that's going to that's going to end up on either side of that divide are very different I think you'll see more operators probably at the early stage clearly you do see more operators acting as angels at the early stage and at the later stage is much more of a financial investor so I think the firms themselves may well bifrcate even further yeah that's well articulated something you hinted at a little bit earlier is you were mentioning you've you've built some infrastructure at the firm slash you know plan on building more and you guys are taking a first principles approach at this what does that look like for you guys or besides the the the GPS how are you thinking about where is the best place to allocate dollars, right? Some people are like, "Oh, we need we should focus on talent." Or other people are like, "Oh, we should focus on, you know, marketing the firm." Other people is like, "Oh, we should focus on helping our founders get customers and building a market development team." How are you thinking about where where is the best place to to to allocate dollars? So, the short answer is it's a very active conversation right now. I'm not going to pre-announce anything yet. What I will say is we probably orient less towards marketing of the firm as as as as as you can tell based on my surprise that we had a Twitter handle, but we we do we do place a high value on like building the things that that our companies need.

Where we actually think of it tends to be a little bit differently. So it's like what are the what are the repeatable issues that companies have that we can build a kind of product for that helps them kind of like unstick themselves. So like how to recruit like I've done a zillion trainings on how to recruit within plaid. You know I spent a lot of my time on recruiting. I love recruiting. I think it's one of the most valuable things that founder can do. Um I also built a training that I can now go through all the mischief companies with. So you know you're thinking about making your first hire. Like how do you actually run a good recruiting process?

Like how do you keep candidate warm? How do you do sourcing? And so it's like how do we how do we productize these kind of like elements of early stage company building turn into something that we can kind of knowledge transfer fairly quickly and then sure yeah of course we're we're we're a sounding board if you have questions on it but be it recruiting or or thinking about complex deal structures or setting up your first sales team so on and so forth like we try to build these like little modules whether they're mass trainings or they're just one-off calls or or or they're like docs that we've written so on and so forth that can kind of help people get through these things Like building a product that has product market fit is insanely complex. Like I I don't think I can teach anyone how to do that. Certainly not in a repeatable predictable way. Building a recruiting team, building a sales engine, like all of those things, like yeah, they're complex and hard, but like those are the things that actually, you know, you you can learn the skills fairly easily. And so we try to think about, you know, what are the things where we can help our founders jump meaningfully ahead by kind of getting out of like by by not trying to reinvent the wheel. Like you should put all of your your your effort into into inventing your product, but you know, recruiting is not an easy problem, but there are a lot of people that have done it effectively and we can we can help teach them that. We also try to ask them, you know, what what would be valuable. We do surveys every six month of our every six months for our founders where we ask you know where where could we be helpful and try to you know think about where we deploy dollars against that. That makes sense. Zach, give us a little bit of a preview. What are the most common mistakes you see founders make in recruiting or or where could a little bit of of of of time with you guys change something that the founders are are are doing about like what's lowhanging fruit? Yeah, it's let's take recruiting specifically. It's not that founders are making mistakes. It's oftentimes that they just have a lot of either indecision or fear doing it themselves. Like I'm a big believer like in in cold sourcing. I think if you ask almost any engineer in Silicon Valley, sometime between the like 2014 and 2020, you have an email in your inbox from me saying like, "Hi, I'm Zach, founder of Plaid and like I'd love to have you come join join the company." So, I'm a big fan of doing that. But a lot of people have a lot of discomfort sending an email, putting themselves out there, like kind of like making that push. So, it's like, all right, how do how do you get people through through the the discomfort and into a place where they feel like, "All right, well, now I know the tools, the things that I need to do in order to recruit or like how do you refine your your your company pitch?"

Like, every recruiting call I do, this the first three minutes are the same. Whether like even if you've like worked at the company before and I'm recruiting you as a boomerang, I'm still going to give you the pitch. Um, and the pitch like evolves like little little by little like year by year. But like how do we hone that pitch? How do you get comfortable saying the same thing? Like at this point I I could like probably just record myself and just play it on these calls. But you know and so so there are some of these basics that if you just kind of do them, it'll make everything way more efficient. You know, finding the way that like finding the right culture fit for talent. I can't I can't teach anyone that. Like you you got you got to figure that out yourself.

But, you know, putting yourself out there, like having your pitch honed, like knowing how to make an offer, like we do things like help with offer letter templates or or comp ranges or things like that, like you're trying to make an offer, like we'll help you figure out the comp for that person. That kind of stuff is all fairly straightforward. Keith Reo has a line that he says something like, "If you're not firing anybody you're you've hired, you're you're not hiring enough or you're not hiring fast enough." like it should be, you know, it's almost like investing where you're you're taking risks on on people and not everyone's gonna going to work out. How would you react to that?

I mean, I think philosophically in a company, you know, you should do as good a job as possible hiring. Ideally, you you filter out the people that aren't going to be a fit on the way in the door. But you do have to take risks and your filter process is not perfect. you end up hiring people that don't work out for one reason or another and you do have to fire them and hopefully you can do that in a nice way and and you can do it fairly quickly and in a way that has has has you know a respectable outcome for everyone but that's that's just a that's a part of company building. You don't no one ever bats 100. Um and like oftentimes roles change. So you know someone who is amazing in one role that role you just don't need anymore. You put them in a new role turns out they don't work there. So you know this happens a lot. I would say in early stage companies the bigger hiring mistakes that we find are people overhire. So you know we we we talk with a lot of founders about like wanting to hire like a head of sales really early and that is right in a few cases but in most cases it's actually better for the founder to figure out how to be the head of sales and kind of like to build I I think of it like the the battleship. So like the if the founder is the battleship you have a battle group around them like you build all the other pieces that help you sell. So like maybe you have an SDR that's helping you, maybe you have like a bisops person that's helping you with it. And so sometimes we find that like these founders like will overhire. And then the other big filter is people don't filter as much for for culture fit. And you know they're they're in such a rush to hire and and they don't think about you know is this person going to be great to sip aside for you know 16 hours a day, six days a week, seven days a week and you know then then it doesn't work early. But you know I think every company has to make some of these mistakes themselves. you know, in in as much as from from the mistress perspective, we' we'd love to help and like we'd love to have these companies make as few mistakes as possible, the reality is you gota you got to learn to to to to to take your lumps and kind of get through it and and come out of it stronger. So, you know, everyone will have these issues. Yeah, that's well said. Lauren Zach, this has been a great conversation. For for people want to learn more about mischief, where can you point them? Mischief.c is our website or you can email us first name at mischief.bc. Awesome. Zack, Lauren, thanks so much for coming on the podcast. It's been great. Yeah, thanks, Eric. Thank you for having us.

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