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Endmoor Faunce

Investing Learnings (v1)

This is the second piece documenting our investing learnings ([v0](#)).

Identity Before Thesis

The number one learning we took away from the year is the importance of having a firm identity. We started the year with various investment theses (such as “invest in OOD”), but because we didn’t establish a clear throughline investing style, we were too fearful to commit to our (eventual) model. I credit Micky Malka for enlightening us on this point: identity comes before thesis. Once we formalized our mission – *to build the chief capitalist of the innovation economy and patron to future world-historic individuals* – we were able to clarify our investment thesis: the [Great Man Theory of Venture](#). After verbalizing this, we felt much more comfortable fully committing to our style of investing, which is meaningfully different than any other venture firm: we invest in individuals, not companies; we generally avoid live rounds, as meeting a founder during fundraising is already too late for us; we actively tune out everything but the founder in our underwriting. In retrospect, I was perhaps too hesitant for too long about whether our approach was too radical, as few exceptional funds have proved this strategy works. This stems from identity confusion, not a lack of thesis clarity. Now, we feel extremely confident with our operating model exactly *because* we find ourselves competing with no one, not despite it.

Portfolio Management

I recently read an old Buffett letter that highlighted the “death by a thousand cuts” of investing learnings – the most mundane, small mistakes tend to be the ones that, in aggregate, disrupt compounding on a long time horizon. I feel that we lack significant sophistication here, so here is an attempt to note a few portfolio management skills to hone in the coming year:

1. *Art of Follow-Ons*

We have dramatically increased our sophistication for underwriting founders at first check, but have no formal framework whatsoever in follow-on decision-making. The general takeaways have been to monitor portfolio companies carefully, maintain an understanding of the level of derisking that has occurred since the first investment, and have more conviction in doubling or tripling down in portfolio companies with momentum. In any given position with multiple follow-on investments, our ownership could’ve been 50-100% higher if we frontloaded reserves. The worst mistakes we made in retrospect may not be first-check decisions, but in managing positions after entry. This is a classic “death by a thousand cuts” lesson that we need to address proactively. While we should consider the marginal unit of derisking for each follow-on dollar, the general lesson is that if we are following on in a position at all, we are probably by default not aggressive enough.

2. *More Concentration*

Studying the portfolios of some historically great funds (Ribbit I-III, Hummingbird I-III, Founders Fund I-IV), I'm always in awe of how much concentration the managers were willing to take on. It's very common among top-performing funds to have a position be 10-20% of the capital; it's even more common for the top 3-5 positions to make up 50% of the capital. Some managers (like Hummingbird) routinely invest 10% of the fund at *first check*. To generalize this beyond emerging funds, it seems that a reliable playbook has emerged on how to consistently 5x funds with relatively arbitrary fund sizes (say, upward of \$1B). For a \$1B fund, concentrating 10% of the fund (\$100M) in each of the top three positions (30% in aggregate) at blended cost bases sub \$1B allows for a realistic path to 3x if each of those companies grows to become \$10B+ outcomes. If any one of those three trophy assets becomes a Robinhood, DoorDash, or Airbnb-sized outcome (>\$50B), the position alone returns the fund 5x. A micro-version of this applies to smaller funds as well, with a target blended position cost basis sub \$100M. A \$10B outcome that's 10% of the fund 10x's the entire vehicle. I note that this playbook has only recently emerged in the last decade, as the amount of \$10B outcomes proliferated, and should continue into the next decade as the amount of \$100B outcomes proliferate too.

3. *Make Less Investments*

Similar to the rewards of concentrating capital, I've learned that concentrating our time, attention, and resources toward fewer founders or companies has yielded better compounding. The classic "better a few customers who love you than a bunch who like you" applies here as well. We have been pleasantly surprised at the incidental value across see-pick-win-help created from really delivering a top customer service to a few well-networked founders. We have been referred to founders whom we would not have had the chance to see if we did not have such high trust with the referrer founder; we've won allocation before even committing because our founders went to bat and vouched for our services; we've been able to demand discounted market prices at inception rounds due to our track record with taking founders from -1 to 0. These are not to mention all the soft power benefits of founders singing our praises with coinvestors, LPs, potential hires, etc. Making fewer investments forces us to raise the bar and concentrate our limited time and energy towards the best individuals in our portfolio. With the benefit of hindsight, our investment cadence should be at least cut in half going forward.

Conclusion

Future pieces will add to our investing learning archive.