

**Exchanges at Goldman Sachs: Great Investors
Investing with Altimeter Capital's Brad Gerstner
Brad Gerstner, founder and CEO of Altimeter Capital
Katie Koch, Chief Investment Officer, Asset
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Allison Nathan: Investors are facing one of the most challenging backdrops in recent years amid slowing economic growth, rising inflation, and geopolitical conflicts.

I'm Allison Nathan, and this is *Exchanges at Goldman Sachs: Great Investors*.

In this special series, Alison Mass, Chairman of our Investment Banking Division, and Katie Koch, Chief Investment Officer of Public Equities in our Asset Management Division, speak with the world's most respected investors about their investing strategies, career trajectories, and their outlook for markets and economies.

I recently sat down with Katie Koch, who shared highlights

from her conversation with Brad Gerstner, the founder and CEO of Altimeter Capital.

Katie, Altimeter Capital is known for taking concentrated positions in tech companies, and clearly we've seen massive volatility in that sector. So tell us about some of the key takeaways you had during your conversation with Brad about how he's navigating this tumultuous period.

Katie Koch: Yeah, Allison, it was a really great discussion at a critical point. And it was very interesting to hear about his experience during the tech bubble as well as when he chose to launch Altimeter, which was at the peak of the financial crisis in 2008. So he's in a great position to speak about how challenging environments call for resilient leadership and people who have used the good times to kind of prepare for the bad times.

One of my biggest takeaways from my conversation with Brad is that, despite the market volatility, particularly in the tech sector which you referenced, the secular arc of technology is very long. And with transformative AI and data trends on the horizon, he did predict that venture

investing will see one of its best moments in the next few years, which is obviously not something everybody's out there saying right now.

We also discussed the concept of essentialism, or the art of doing less better, which is at the core of their investment culture at Altimeter. And this idea has led them to identify a handful of great businesses that are disrupting really big markets and to remain invested in those companies over the cycle, even through periods of dislocation like the one we have now.

In the world of investing, he said, it's where you place your big bet that will define you.

Allison Nathan: I can't wait to hear more. Katie, I will let you take it from here. Here's Katie Koch in conversation with Brad Gerstner now.

Katie Koch: I'm Katie Koch, Chief Investment Officer of Public Equity for Goldman Sachs Asset Management. Welcome back to another special edition of Exchanges at Goldman Sachs Great Investors. I'm really thrilled to be in conversation today with Brad Gerstner. Brad is the

founder and CEO of Altimeter Capital, which is an investment firm focused on technology investments across both public and private markets globally.

He started the firm in 2008 with just under \$3 million from friends and family, and today clients have entrusted up to \$15 billion in assets under management with Brad and his team. They are premier capital partners to founders of companies like Snowflake, Facebook, and Roblox. And in this episode, we're going to cover his career journey, his role as a pioneer in bridging the private and public markets, and his perspective on the evolving tech landscape that we're in today.

Brad, we're so happy to have you here. Thank you so much for being on the program.

Brad Gerstner: It's great to be here, Katie.

Katie Koch: So I want to start really at the very beginning. You grew up in a small town in Indiana, which isn't a normal background for all tech and hedge fund investors. I just wanted to get some more context from you

on that. I know your father was an entrepreneur and had faced some setbacks. And I was curious if you could tell us how that experience and your experience growing up in Indiana impacted you as an entrepreneur and later investor.

Brad Gerstner: I don't know what you're talking about, Katie. You know, Indiana is the bastion of all entrepreneurialism and all high tech. So. I had, by all accounts, a good childhood. I grew up in a small town. My dad was first-generation college. And he tried his hand at being an entrepreneur. And it was a really tough period. That was the formative part of my childhood. When I was in fourth, fifth, sixth grade, 1978, '79, '80, '81, was a period that we're talking about all too much these days. A period of hyperinflation, hyper interest rates, global competition from the Japanese in the auto industry, slow economy, hostages being held in Iran. You think about the geopolitical setup, you think about the macro setup, and it really does have some echoes to what we're talking about today.

And so I had to watch my dad go through a very, very

difficult period. It wasn't a period of venture capital. Back in that part of the world, when you started a business, you mortgaged the house, you mortgaged the car, you borrowed money from the local bank. And when things went upside down, you lost the house and you oftentimes lost your friends. And in my dad's case, you know, kind of lost a marriage and lost his health. And so it was a tragic but heroic battle to provide really great jobs to the people in our town in an auto parts manufacturing business.

And so I watched my dad, for the balance of his career, work very hard, refusing to ever declare bankruptcy, to pay back his friends at the bank and others on the commitments he made when he borrowed money to start his business. And so, you know, when you go through that as a kid at that age, A) you learn those lessons, you learn those stories. But B) I didn't realize at the time but I realize today really how heroic that journey was, that commitment to your word is your bond, and it was really this balanced approach to risk taking. And so I think I viewed risk and I viewed entrepreneurialism through that lens for the balance of my life.

Katie Koch: And then you eventually did go on and become an entrepreneur yourself. I think after you graduated Harvard Business School, you did a number of things, including starting companies in the online travel sector. Why did you think that was a good opportunity to do that at that time? And what did you learn from doing that?

Brad Gerstner: Well, when I graduated from law school in 1996, I had encountered the Netscape browser. I was convinced that the Internet was going to be profoundly impactful on not only business but society. I went back to business school really as an off ramp out of the legal profession in trying to find my way to Silicon Valley. And so I was pretty hell bent to come to Silicon Valley.

Along the way, I was in Boston. I met David Fialkow and Joel Cutler. I decided to stay in Boston and help them get General Catalyst started in 1999 and would become the co-CEO of their first investment out of that vehicle, a company that was early in online travel. Think Shopify for online travel. So we were providing booking engines to folks like Travelocity and Expedia. And, you know, online travel was

one of the survivors of Web 1.0, and so Barry Diller and his head of M&A, Dara Khosrowshahi, Jeremy Liew who worked with Dara, were really rolling up a lot of travel assets and bought Expedia and NLG at the same time. And so whereas a lot of my friends didn't make it through the wreckage of 2000 and 2001, we actually had a reasonably good outcome that would put General Catalyst on an excellent path and that reminded me how much I enjoyed really leading teams, building teams, setting vision, setting strategy, and being an entrepreneur.

I went on to start two other companies, neither of which turned into huge home runs but I learned a tremendous amount. We sold both of those businesses, the last one to Google.

Katie Koch: And then you did go on and got some experience in public market investing, I believe, after that. And your mentor in that space I think was Paul Reeder. Tell us a little bit about that, and then I want to go on to how you started Altimeter.

Brad Gerstner: I put myself through law school and

business school really kind of day trading stocks. I had taken the Series 7 in '63 in law school, so I was intrigued by public markets my entire life. So that early online travel company had a couple of notable hedge fund investors, Paul Reeder and Seth Klarman. And so I was intrigued by this idea that public market investors also doing private market investing, we didn't call it crossover at the time, but it really reminded me of the throwback partnerships that Buffet and Munger had where they didn't look at something as a public investment or a private investment. It was simply a good investment or a bad investment that had certain liquidity characteristics associated with it as to whether it was public or private.

And so to me, I thought there was an amazing opportunity to A) learn the public business from one of those legends. So I'd go to work with Paul for a couple years. And then secondly, to really build out that stack that allowed for life cycle investing in technology.

I had two insights that were valuable. One, that companies were going to scale faster because they were scaling on top of the Internet. So this platform effect was going to allow

them to scale faster, and more capital efficient and they would likely stay private for longer. And if that was the case, then a lot of the public market benefits that had inured to public market investors would shift into the venture and private market. And I think over the last 20 years, that's largely played out.

And then I had the great fortune of Paul entrusting me really to build a tech crossover business there where I both invested in public market names like Google and Booking.com in the early days. And then on the private side was able to lead the Series B in Zillow and ITA Software and SideStep and great search companies that proved to be very quite valuable over time.

Katie Koch: I want to come back to this concept of crossover and how that's performing in the current environment, but just to stick with the background and the story here. You launched Altimeter at a very, some might say, auspicious time. November 1st, 2008. That's really some macro challenges happening. Tell us what gave you the conviction to go out on your own and also to do it at this point in time. I think you started with \$3 million,

maybe mostly family and friends? So talk to us a little bit about that.

Brad Gerstner: Well, I'd say two things. You know, I had started or had helped start three companies really kind of on the back of a napkin. The idea of the active creation, like, not having all the accoutrements of a big organization around you, taking that risk, that was a feeling that I was familiar with, that I felt comfortable with. And so starting by myself in a single-room office near par, that didn't feel embarrassing to me. That didn't feel scary to me. It was pretty binary. Either the world was going to end, or this was probably a pretty decent time to invest.

And as Charlie Munger said the other day, if the world's going to end, then I crawl under the desk, right? So you have to bet on the optimism that, while things on a market-to-market basis can get really nasty, the secular curve for 100 years of American capitalism has been up and to the right. And the secular curve today is up and to the right in technology, notwithstanding the nasty cyclical overlay that we're experiencing in the moment. And so that was the feeling.

I think there's a great liberation when you organize your life in a way that's way below your means. So Michelle and I lived in a \$3,000-a-month subterranean apartment. We had just had our first child. We didn't have the accoutrements of an expensive life. We had saved money. And so it really liberated me to take risks that maybe the seasoned or successful New York hedge fund manager would have never taken because they would have had to have given up a lot of the trappings that they had become used to.

Katie Koch: So eventually you did get out of that basement, so congratulations on that. You built this hugely successful hedge fund, \$15 billion. I wanted to ask about part of your culture that I've heard you talk about before. We think a lot about cultures here at Goldman Sachs and investment cultures as being quite defining to long-term success in organizations. And you've spoken a lot about the role that essentialism plays at Altimeter. Can you unpack that a little bit for us and why that's an important part of who you guys are and why you've been successful over time?

Brad Gerstner: So it's not only a business philosophy for me, it's really a life philosophy. And one might say a product design philosophy as well. I mean, it's closely related to minimalism, right? But it's this idea, the art of doing less better. Right? That there's a central purpose for a product. There's a central purpose for a life. There's a central purpose for a business. And as we lose humility, we tend to get further and further away from that central purpose.

And so this idea of essentialism is both a strategic blueprint I think for a happy life and a successful business, but I also think it's a tactical blueprint. So what do I mean by that? The strategic blueprint simply is that we're in the business of finding, defining entrepreneurs and companies that are disrupting giant markets and then investing against that opportunity for the life cycle of the investment. There's a saying within essentialism. If it isn't a quick yes, then it's an absolute no. And so this idea of prioritization, everybody prioritizes. But when you listen to an earnings call or you listen to a leader and they give you the top 10 priorities, right? Priorities is singular often, not plural.

And it's certainly not 10. And so I think that that provides clarity for life. It provides clarity for your team. And particularly during periods of tumult, periods of disruption like we're going through right now, as I've said to my LPs, as I've said to my team, we're a part owner of a handful of terrific businesses. I don't know the trajectory of interest rates. I don't know the trajectory of inflation, right? We're all curious and interested, but if you're a part owner in a handful of businesses that are going to be bigger and more profitable in the future, then they're going to be worth more.

And so that time arbitrage against that simple theory, particularly during periods of dislocation, I think is the most important thing that you can have in an organization.

Katie Koch: Right. And it's so important to have something foundational like that for the whole team to come back to, to navigate uncertain environments. I think what I've heard from you there as it translates to investing is essentialism would lead you to focus on the few things that are driving a few companies that you want to own and the biggest drivers to that over the long term. And that you

can stay committed to those theses through tumults and dislocation of markets. Is that reasonable?

Brad Gerstner: Yeah. It's very difficult to have conviction in a name and even more difficult to have conviction during periods of dislocation, right? The secular curve around the transition of all data from data centers into the cloud is not changing this morning. But the price, the mark to market of assets, is changing this morning.

So if all I was doing was staring at my blinking screen, it would be very difficult to work. But when you come in and think as an owner, a part owner of a business, and talk to customers, talk to the managers of those businesses, those are the things that ultimately are within your control. The rest we hope to occasionally get right by having more or less on the table. But nobody who is investing against the long arc of technology is going to define themselves by getting inflation calls right and interest rate calls right.

Katie Koch: So well said, and obviously this is a moment in time when capital costs something, inflation is here, there's threats from other competitors, that great

management teams can differentiate themselves, and execution becomes more important. You've named some companies that are very established. If we look to more the venture, growth equity space, do you think that one of the results of this part of the cycle that we're experiencing is that some of these founders may become more selective about who they want on their cap table? And it may not just be for the highest valuation, but it may be looking for partnership and people who can help them in this difficult environment? What do you think the lasting impact of this is going to be?

Brad Gerstner: Well, I would like to think that's true. There's no doubt that the damage that's now being done will have post-traumatic stress for a generation that's never experienced it. Right? Coming out of 2000, the PTSD lasted for two or three years. Coming out of 2008, it lasted for years. And so we'll see what happens in this period. I happen to think, as painful as it is, one of the beautiful things about the creative destruction and the dynamism of American capitalism is I promise there are going to be risk takers, there are going to be entrepreneurs, there are going to be investments we make during this period starting

really with the price discovery in the back half of this year but going into '23 and '24, it will be one of the best vintages in early and mid-stage venture investing in a long time, maybe in 15 years.

And if you think about companies that were founded during the carnage of '08, Uber and Airbnb being two examples, right? It's great opportunity because there's less competition. You get rid of the grifters that are just the third or the fourth or the fifth copycat of some idea. You get rid of the grifters who are just providing follow-on capital to unprofitable business models. And I think that the best entrepreneurs have always known that who's around the table matters, right? And so I think that that will be reinforced in this period.

And I think that from an Altimeter perspective, again, thinking as part owners, like, we're more convinced by the secular curve -- whether we're talking about cloud software, whether we're talking about ML and AI, whether we're talking about the transformation going on in life sciences today -- than we've ever been. But we never thought that the laws of economic gravity, that economic

cycles were being suspended. And we're hopeful that tragic events like the ones going on in Ukraine can be brought to a peaceful conclusion. And we think those type of events will do a lot to calm markets, but right now we're living in a moment of max uncertainty.

Katie Koch: I want to just go back to one thing that you talked about the best founders, one thing that they do is get the right people around them to support them through this. You have been a founder. You have started companies. You have been an investor. This environment we have consensus is going to be a more challenging operating environment. You've also said that this could be an incredible vintage to dedicate capital to venture or growth. It'll take time to prove that out, but it could be an incredible time to do that. What are the characteristics of founders that you think are going to be uniquely capable of navigating this environment? And how might that be different than people that were successful over the last five, ten years?

Brad Gerstner: Well, I think in this moment, Frank Slootman, legendary CEO who was running Data Domain

during the first period of carnage 20 years ago. And when we were talking about transitioning the CEO at Snowflake from the incredible Bob Muglia, who helped build that business, to Frank, one of the things that resonated with me and I've respected about Frank is he's always girding for battle. It's always a war. You're always on wartime footing.

And so he didn't rest on his laurels looking at a business that was growing over 250% and a huge secular TAM and say, you know, free espresso and snacks for everybody, only come to work three days a week. He did just the opposite. He totally changed the culture to prepare them for this minute, right? And if you look at that, the consequence of that, Snowflake pulled up its free cash flow targets by six years. They're going to do 15% free cash flow margins this year growing to almost 100% in a massive market. And those margins will expand to 30% over time. So if you've lived through those moments like Frank had, then you could look through the consensus of the moment and say, listen, times may get tougher, likely get tougher, and I want to run the table when they do. So now he's positioned to do that. So when you talk to younger

founders, I mean, one thing I would say is there's a temptation to only migrate to the people who can tell you war stories. The problem with that is sometimes on the other side they become too conservative. I need young risk takers, but you're always looking for a risk taker with the wisdom to want to learn, to ask questions, to be open for feedback and advice.

This idea that a Series B or a Series C company, the founder is going to take 100 million or 200 million off the table before the company's proven anything, you know? Which we witnessed en masse the last three years. Total insanity. That's over.

Katie Koch: So Brad, I want to pivot to some of your large investments in the public space briefly, particularly among social media platforms. Let's talk about Meta. There's a lot of discussion about disruption in the social media landscape. Obviously cyclical of advertising revenue. But even Meta acknowledged in their last quarterly earnings that TikTok is an emerging threat, especially among GenZ users. And you were both an early investor in ByteDance, obviously the owners of TikTok, as well as in

Meta. So what are your thoughts on that? Do companies need to figure out short-term video? Is that the big thing that we need to focus on to understand the future of engagement with users?

Brad Gerstner: Well, I think what's at play here is even bigger than short video. I think that most analysts are talking about short video, but it's something much more profound. You know, we were investors in ByteDance well over five years ago. I think they were valued at \$10 billion at the time. We've been investors in them ever since. We've been investors in Facebook for several years. We were one of their larger investors back in 2012, after they came public.

One of the things I love about Facebook is it's one of the few companies that's still founder-led, right? Think about how visionary Mark Zuckerberg was in his acquisition of Instagram, how visionary he was in his acquisition of WhatsApp, how he's pivoted that business. That business just generated upwards of \$9 billion of free cash flow in the quarter, right? Its incremental margin is probably 70-80%. He's investing aggressively in what is the future of not only

sharing platforms but also the future of communication platforms.

I think the piece that has been least appreciated about the 20 billion of CapEx that Mark's putting into the ground, I think there's this idea that he's running around over at Facebook wearing VR/AR glasses and throwing the long ball, hoping that something sticks. I think nothing could be further from the truth. Facebook has undergone a transformation from a social recommendation engine to an AI recommendation engine, where I get to choose from two billion pieces of content, not 2,000 pieces of content.

The disruption of TikTok was that it was an AI recommendation engine, not a social recommendation engine. If you read Mark's transcript in the quarter, for the first time he said publicly, we're going to combine social recommendation with AI recommendation. I think he's been building one of the most powerful AI discovery engines on the planet. That has profound consequence for Reels but also for Instagram itself, for Facebook itself, for WhatsApp. All the content recommended against all platforms will be both social and AI driven. That unlocks

massive global engagement.

Notwithstanding TikTok's competition, you probably noticed in the quarter that they expanded their reach. They're still growing audience globally. They reach almost 3 billion people. Building an at-scale platform of audience and advertisers is highly sticky. There's a massive competitive moat, and they're not resting on their laurels. I mean, Reels is now 25% I think of Instagram usage and going up. And then on top of that, you have them investing in a next-generation social communication platform in AR/VR, just like Apple is.

But I think the vast majority of his investing, if you look behind the scenes, is really in building out the most capable AI infrastructure among all the hyperscalers.

Katie Koch: So to zoom in on Meta for a second, what I'm hearing you say is that to be super bullish on their business, it doesn't require us to wait for the metaverse to materialize. They're already using forms of AI, which has made TikTok wildly successful. So they're capable of doing more here to build a better mousetrap, to get more people

engaged on social and to be more targeted in their ads so that Reels ultimately really does have the possibility as being compelling as TikTok. Is that the right understanding?

Brad Gerstner: I think both Reels, Instagram, connecting businesses to consumers via WhatsApp, which is exploding in India, all of these things are driven by AI. So core capabilities, no, I do not think you have to wait on anything. And this is a business that's trading below 20 times free cash flow. It will exit the year growing over 20%. It's trading at 7.5 times EBITDA.

And think about this. We leveled all this criticism at Jeff Bezos back in '06, '07, '08. “Why aren't you making more money?” Okay? What was Jeff doing? He was digging the largest goldmine in the history of technology with AWS. He was funneling all of those dollars into AWS, and we weren't giving him credit for it. In fact, we were penalizing him for it. And yet that investment turned out, in and of itself, is worth over a trillion dollars today. It's one of the great businesses ever built in technology, built by a founder in an adjacent market to the market that he was in. And so I

think today it's easy, it's fashionable to beat up on the management team at Facebook and to say, “Oh, you know, they're wasting all of this money.” But if you really deconstruct where the CapEx is going into that business, I think you'd be hard pressed to say that AI resource isn't one of the most valuable resources in the world that can be deployed against every one of his businesses, whether it's communications or whether it's a social and AI recommendation.

And so we think there's going to be growing engagement. We think this is going to be powerful for the ad targeting and the content targeting platforms. And so you don't have to attribute any value in your model to AR or VR or, quote/unquote, the metaverse in order for this company to compound at 20-30% for the next several years.

Katie Koch: So just want to ask you one last question on public markets. So you've obviously invested in both public and private markets. Public markets have gotten very cheap, as we've already talked about, with this major dislocation. You've also made the point that this could be an incredible time to step into private markets for the long

term, too. But what do you think about the dispersion of right now dislocation between public and private markets? And how would you recommend people think through that and allocate their capital?

Brad Gerstner: Well, we have no idea really what the dispersion is between public and private markets because there's zero price discovery occurring in private markets, right?

Katie Koch: But the forward look. The fact that it's unlikely that we're going to have software down, parts of software market 50% would suggest that eventually we're going to have to have a down round, right?

Brad Gerstner: The only reason we're not seeing massive down rounds today is because companies don't have to raise capital. If they had to raise capital, if they could raise capital, the price discovery would tell you that many of those companies that raised in the last two years would be down minimum 50%. Minimum 50% for the companies that executed well. If they didn't execute well, there will be no capital. Hard stop. Okay? You couldn't

pry a late stage dollar out of a crossover investor's hands today with a crowbar. There are no allocations going on today by Tiger, by Coatue, by Altimeter because the price discovery has not happened adequately to induce us to spend that dollar in the private markets versus the public markets.

If I can go buy Snowflake in the public markets growing 100% and I can buy it with a free cash flow yield next year of a few percent, why would I invest in a software company that's growing slower, burning capital, and illiquid? I wouldn't do it. And so it's going to be Q3, Q4 before we first start seeing price discovery. That's when private market companies will need to raise capital. When you need to raise capital in this state, it's a wipeout, right? And so I think you're going to see that price discovery. I take no pleasure in the pain that's going on in these markets, but I feel for the great companies that are out there that are also getting pulled down in the downdraft because it's difficult to lead those companies. It's difficult to show up and explain to your employees what's happening. And most of this is no fault of their own.

It's about Putin's aggression in Ukraine, which has led to all of this reflexivity into global energy, which has exacerbated the inflation problem, which has exacerbated the interest rate problem. But the fact of the matter is it will make these companies stronger, and there's no doubt that, when the price discovery adequately occurs, we are going to be allocating a lot of capital into market-leading companies in big TAMs with great leadership because they're going to be worth a lot more in the future notwithstanding the present moment.

Katie Koch: And just on the navigating of them through this when they eventually do those down rounds, something that's been talked about a lot I think people would appreciate early expertise on is retaining talent through those down rounds. Having run businesses and invested, how would you be recommending founders navigate that?

Brad Gerstner: Think about this, Katie. Uber raised capital at I think \$47 a share in its last private round almost six years ago. Since then, I think it's 5x revenue. It's gone from losing over \$5 billion a year to making over \$5 billion forecast next year. And the stock has gone from

mid 40s to 25. Think about what it feels like to be an employee of that business. I did everything you asked us to do, right? And we got cut in half.

And so I think the leadership challenge today, whether you're leading an airline today. I mean, listen, every asset is correlated today. I don't care what you're leading today. You got to show up this morning, you got to lead from the front. This is when culture matters. This is when essentialism matters. This is when I think the strength of your partnerships -- our partnership with Goldman Sachs, our partnership with our limited partners, our partnership with our founders -- this is when all of that DNA matters because Altimeter's not going anywhere. We've set up the business to have the resilience, the anti-fragility for these moments, and we're going to come out the other side. But we don't take any pleasure in this.

So I think if you're a founder, get the team together. Tell them, explain the mission of the business. In their case, to help companies transform data as they make the transition into the cloud. That is accelerating. That's not decelerating, right? So you focus on the things that are

within your control.

By the way, attracting the world's best talent gets easier, not harder, during downturns. And so, yes, you will lose some employees who want to go find greener grass. You will lose some employees who, frankly, can't tolerate the volatility, and who can blame them? This idea that we're going to have hyper wage inflation in a world where every company is downsizing, freezing hiring, etc., is a farce. By the end of this year, we may very well be talking about deflation again as we lap our way into Q1 because we're heading into a deep global recession, and I think it's going to be very difficult for global monetary authorities to raise rates as suggested into the face of what I see as a very, very deep global recession sitting on our doorstep.

Katie Koch: Taking away from your comments, one major takeaway for me is that it's an important moment for leadership. And sometimes when a lot of things are going against you, people's inclination can be to go inside of themselves or go inside the foxhole. It's a very bad moment for that. So what you're saying is that people need to be out front, leading employees, connecting them to the vision,

making them believe in the secular growth, and that can help them navigate this period.

I'm also interested in your comment that actually eventually it should be a great market to pick up talent. So be less focused on the near-term down round and actually, if the world is contracting, in fact, there should be more opportunity to pick up the best talent and take the best franchises if you are leading from the front. So that's very interesting.

You've had a lot of successful investments. I wanted to ask you if you could give us one that didn't go your way over the long arc have your career and what you learned from that.

Brad Gerstner: Yeah, well, the list of what I've gotten wrong is a lot longer, a lot longer, than the list of what I've gotten right, but that should be also a lesson. Which is the reality in this business is you need to get a few big things right. And if you think about Warren Buffet over the last several years, over 50% of his public book in Apple, right? He didn't get a lot of things right this public book, but he

got the big thing right.

For us, Snowflake was obviously a transformational investment. We've had lots of other software investments. Twilio or Okta or Mongo, you go through the list. But the reality is where did you place the big bet and how did that go? And how did that define you?

But I'll just talk about a recent one we did where we helped bring Grab public in December of last year. I think this is an excellent company based in Southeast Asia, a leader in rideshare, a leader in delivery. Just got another national license for a digital banking business in Malaysia. Fast-growing region. Has said they're going to be profitable in 2023. Has plenty of cash on the balance sheet. But the enterprise value of the business or the market cap of the business has gone straight from 20 billion to 4-5 billion today. Because markets adjust.

And for us, the timing on that was terrible. I feel bad for our partners that we brought into that business. There are going to be things that you both get wrong from a fundamental analysis perspective. There are going to be things that you get wrong from a timing perspective. And

allocating capital and having partners allocate capital in December of 2021 was about as bad a timing as you could possibly have given what's occurred in the next four to five months.

I was pretty vocal over the course of last year that we expected high growth multiples to retrace to their 5-year average. And the reason was that I expected that the world would normalize from COVID. When it did, I expected that rates would go back to the 2.5% band that they'd been at pre COVID and that multiples would go back to that band as well.

What I did not anticipate was a war in Ukraine that would unleash global fear about hyperinflation and really remove the upward bound on interest rates. And when that occurred and the negative reflexivity occurred associated with that, we have now overshot that 5-year average. We are now at a 10-year low multiple in Internet. We're approaching 10-year low multiple in software. We're at a 10-year low multiple in fintech.

I think that markets right now, there's no buyer willing to

step in. And so sellers are having their way with markets. And so what I say to my team is, “Stop looking at the blinking screens, do your fundamental work on these great businesses. We're part owners.” Today, the world is telling us that they're not worth a lot. There will be a moment in time -- I don't know whether it's six months, twelve months, eighteen months -- but where the world stabilizes and realizes that secular trends continue. And on that other side, we think we'll do quite well.

I wish we had had less exposure on, like every manager of any asset today. The truth of the matter is, if you were an owner of any technology company, if you worked at any technology company today, you are poorer today than you were at the start of the year.

2020, it turned out, when the Fed took rates to zero, we had our best year up over 100%. And I said to our investors as that year ended, we probably just pulled forward two years' worth of returns. And when you look at the world today, the negative reflexivity we pulled forward for many people more than two years' worth of returns. And I have to say that I'm not being Pollyanna, but I feel

extraordinarily grateful to be in this seat, to work with founders through the tough times. It's easy to work with people through the good times.

Katie Koch: I want to bring in your culture of essentialism. Focus on a few things that matter. We look out at the next ten years. What do you think is going to be the big technological innovation that's going to point us up to the right-hand side of that chart in total enterprise spend? Like, what is that going to be? And which of the big companies' platforms today do you think will be most successful and actually be among the world's largest companies, which is a hard thing to do in ten years? And then one quick example of someone we might not know yet who you think is going to be able to execute on that.

Brad Gerstner: Well, so the biggest trend that I've probably been investing against for the last decade will also be the biggest trend that we'll invest against for the next decade, which is Bill Gates once said that capturing all the world's data and machines making decisions with that data will be bigger than the Internet itself. And I agree. And we're in the early phases of capturing all the world's data.

It will be captured and put in the cloud, and increasingly we will have artificial intelligence, using lots of machine learning techniques, that help us as humanity make better decisions, whether it pertains to the environment, to education, to health care. All the things that we do will be informed by better data and better decision making.

That's the long arc of where we are all headed. And so we have been investing in the infrastructure layer that will allow that to occur. And the very first step of that is how do we get the world's data into a place that it's easily accessible, normalized, searchable, etc.? We think Snowflake will play a major role in that, but so will hundreds of other companies that we're investing in.

There's \$3 trillion of annual enterprise IT spend. A tiny fraction of that has moved into the cloud. And I think that if you said to me what's the thing that we really haven't heard of that's going to impact that? It will be solutions that get layered on top of the data that are running algorithms both vertically and horizontally that help enterprise and humans make better decisions around those areas that I talked about.

We certainly see that today. There are horizontal players that are building effectively software that allows you to more easily build models. A company like Data Robot. Or companies that are vertically oriented that can look at data in health care and help you make better health care decisions using all of this data.

I've said before that the single greatest source of alpha in growth investing is have an imagination to believe that something can grow faster for longer than the rest of the world believes. Sell-side models tend to be linear deceleration in rates of growth for almost all growth companies. The observation that I had with Booking.com or Google back in 2004/2005 was the market was way bigger for search and that their penetration was really small and it would grow faster for longer and it did. Nobody thought at 500 million that Booking.com would ever be worth \$100 billion or that Google would be worth a trillion dollars. And I think that's the observation today.

So find big trends. Find big secular trends. Find great companies that are free cash flow positive and can't go

away, okay? And then bet behind them.

Katie Koch: And I'm going to end with just a personal question to you of an initiative that you're focused on called Invest America, which is trying to tackle some of the issues around income inequality. Can you just describe that to us? Because that's a macro issue we're super focused on as a challenge that we're all facing right now, and it sounds like you have an interesting solution for it. So I wanted to hear more about it.

Brad Gerstner: Well, this is something that I'm going to spend the balance of my career working on, which is leveraging this platform and relationships. You know, this idea that, in many ways, the Industrial Revolution flattened the playing field, right? Because you could get a high-paying job on a manufacturing line where I grew up and your standard of living went up a lot. And so, in many ways, the rebuilding of the world post World War II started to diminish the wealth gap.

The Technology Revolution, where a single company can have 3 billion customers like Facebook or like AWS and

Amazon naturally leads to winner take most, right? And in those scenarios, those entrepreneurs, because those companies scale in a very capital-efficient way, they own a lot of the businesses. And so they become very, very wealthy. And so this wealth gap that we watched emerge is not some nefarious plot by people to get hyper wealthy. It is the nature of markets in a technology revolution.

So I think in this country, where we only have 30% of people who are owners, we have to make everybody an owner. Everybody needs to be part of the system. We're in this great enterprise called the American Experiment. Everybody deserves to own their small slice of Tesla, of Apple, of United, etc., particularly given the level of government involvement we've had in markets. We can't have government bailing out markets that only benefits 30% of people.

So Corey Booker and many others have had this great idea about baby bonds. And spiritually, the idea I have is very connected, which is leveling the playing field. But rather than giving somebody a bond, which may again sound great during market days like today, but rather than giving

somebody a bond, let's give them an investment account. If you give somebody a \$20,000 investment account at birth, by 60, compounding at 7%, it will be worth a million dollars, right?

We have just over seven million babies born in this country a year. I would love to see them each get an investment account. The government puts it into an ETF that reflects the S&P 500. They can't take the money out. They can add but not subtract. And then I'll leave it to people with better ideas as to how we manage this. You know, can they use it for college, can they use it to buy their first house? But if we just take part of that nest egg, I will tell you, I was on the outside looking in when I was a kid. I remember when I first owned something. It's an extraordinary unlock. It's an extraordinary feeling. I want every kid to have that feeling, right?

And I think if we bring everybody in on the inside, not only does it begin to narrow the wealth gap, but psychologically it leads to more happiness, it leads to more savings, it leads to better health. And so I think this is something that's very doable. It would cost us \$20-25 billion a year

as a country. I think that's the type of sacrifice that people would love to pay taxes for, to bring everybody into the system. So I'm trying to build a very large corporate public market.

And it's a small pivot from baby bonds to Invest America. But effectively, it's an investment account and everybody owns their small slice of the American dream.

Katie Koch: Brad, I think that's a great place to end. I love this inspirational message of getting more people to be owners of America. And most importantly, I'm leaving this conversation truly really inspired because it doesn't feel like that every day in the public markets, and today is another day where it's sending us the opposite signal. But you've given us a lot of reason and confidence to look through that. And then actually the decade ahead could be an incredible decade for innovation. And right now the sector that's feeling the most carnage is actually the solutions provider to the rest of the real economy that needs to digitalize itself. And there is massive wealth creation potential in that. And we're just really happy that we have people like you out there that are trying to help

navigate that on behalf of clients, pick the right founders, pick the right companies, get through the dislocation, and use this as an opportunity to build long-term wealth.

And I really appreciate the fact that you're thinking about that definition of wealth broadly to include more people. So thank you for your time and your leadership in the industry. We really appreciate you.

Brad Gerstner: Thanks for your partnership. It's great to be with you, Katie.

Katie Koch: This podcast was recorded on Monday, May 9th, 2022.

Allison Nathan: We really hope you enjoyed listening to that special episode of Exchanges at Goldman Sachs Great Investors. If you enjoyed the show, we hope you follow us on Apple Podcasts, Spotify, Google Podcasts, or wherever you listen to your podcasts and leave us a rating and comment.

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