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Synthesizing Returns and Values

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Obvious Ventures co-founder and managing director James Joaquin explores how his firm balances its twin goals of creating social benefit and driving financial returns. He stresses the importance of listening to founders' motivations, as well as selecting startups that will inevitably have a world-positive impact as they scale.

Transcript

- You've got the core questions 00:00:07,320 that any venture capitalists would ask about any company such as product market fit, as you described, such as, is it the right time? All those things.. - Market size, (indistinct).. 00:00:17,720 - Right.. Right.. 00:00:19,870 And then it's all around, you know, can we make money? Are these the people that are gonna make us the money? Those kinds of IRR stamped on our forehead questions.. And then you have the aspects of the world positive, aspects of impact.. How do you balance and how do you think about whether you're gonna make an investment and how do you balance the aspects that are core to traditional venture, and these aspects of world positive? - Well, I think we do three things.. 00:00:54,920 The first thing we do is seek to understand.. So we try to ask a lot of questions.. I think, you know, some investors show up with such a strong point of view that they're trying to convince the founders to maybe put their square peg in a round hole or go after a certain angle of the market..

But we try to first listen and understand why are these founders doing this? Of all the things you could do for 10 years of your life, why this and what's the plan? So we try to understand that.. And then internally we have a lot of discussion and debate as an investment team about whether an investment is world positive.. That's not a black and white answer to that question.. So it's very nuanced and that's good.. We have, I think healthy debate, because for a given Obvious Ventures Fund, we can invest in 30 companies out of that fund.. So unfortunately, most of what we do is say no, right? We, you know, we'll look at 2000 investment opportunities a year.. We'll invest a fund over three years.. So that's 6,000 to 30 is the funnel.. So we have to be really, really choosy.. And we want to make sure that we do it with authenticity so that when we back a company, it has great financial opportunities to drive venture capital returns, and it has world positive impact in the company..

So we have a lot of investigation that we do around that.. And then the third thing that we do Jack, is we ask the question, what could possibly go wrong? We look for what are the potential unintended side effects of this new technology that this company is building? And it doesn't mean we won't invest because of that.. That's a question that we keep asking after we invest, and we have a governance role on a board of directors as well.. We think it's such an important question because all technology is a double-edged sword and has different applications in different uses, but we think we can help our founders stay true to the world positive intention that they have.. And by asking that question, maybe we can uncover some edge cases where, Hey, this is an unintended use that could be really bad.. Well, maybe we should put 10% of our engineering resources on building a safeguard against that to help prevent that.. And if we do that, it's good for shareholder value.. If we can help prevent a disastrous, side effect or application of a new synthetic biology technology, that's good for shareholders.. It's good for business.. But we look at it from that angle as well..

- So just to put a finer point about it, though, 00:03:41,260 is there a minimum requirement on the world positive side, and a minimum requirement on the financial side, or do you make trade-offs, if it's the more it is on the world positive, the more you're given a leeway, how do you think--- give us a little bit of a window into the back room after you dismissed the entrepreneurs, and how you talk about this things? - I would say, look, we don't trade values for value.. 00:04:03,940 So we're not gonna say, Wow, this fracking company just has got explosive revenue.. Why don't we just justify it as less greenhouse gases than coal, and maybe we should invest in fracking, right.. To use an extreme example.. So we don't make that trade off.. Instead, we're looking for.... and these are hard to find.. But we have demonstrated we can find them, the companies where it's inherently an and not an or.. That there's actually a flywheel that turns, that says, Hey, you know, Sammy Inkinen, who was a venture partner with us early on, he said, "I wanna build a company that will reverse Type 2 Diabetes in a 100 million people by the year 2025." That was literally the cocktail napkin mission statement.. And we were his first check..

We said, you know, if you do that, diabetes is a top four healthcare spend, it's such a massive problem.. And when Sammy was starting Virta Health, diabetes could only be treated.. The idea of reversing it was actually laughed at, by mainstream medicine.. Roll the clock forward, his company is now valued over $2 billion.. They've got three year peer reviewed studies where they are successfully reversing diabetes.. They're now finding positive side effects.. Their doctor supervised, nutritional system is also reversing.. I don't wanna make claims that I can't back up, but let's just say there's a roadmap of other conditions that they think their system is gonna work for.. So those are the kinds of companies we wanna invest in where there's no trade off.. It's the world positive benefit is baked into the disruptive solution...